



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

Results Announcement
for the year ended 31 December 2006

HIGHLIGHTS

- ❖ The Group's turnover rose by 120% to HK\$2,908 million in 2006.
- ❖ Net profit attributable to the Company's shareholders increased by 27% to HK\$1,346 million; excluding property revaluations, underlying net profit increased by 67% to HK\$1,063 million.
- ❖ Underlying earnings per share after excluding the effect of property revaluations amounted to HK\$1.61 in 2006, an increase of 42% over 2005.
- ❖ Net asset value per share attributable to the Company's shareholders recorded an increase of 31% to HK\$11.80 as at 31 December 2006.
- ❖ Increased land bank by acquiring projects for an aggregate gross floor area of approximately 5,430,000 sq m in Mainland China and 978,000 sq m in Macau.
- ❖ The Group raised additional capital of an aggregate gross total of HK\$4,961 million for business expansion and property investment in Mainland China and Macau.

	<i>2006</i>	<i>2005</i>	<i>Change</i>
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Turnover	2,908	1,320	+120%
Profit attributable to the Company's shareholders	1,346	1,059	+27%
Excluding property revaluations	1,063	638	+67%
Earnings per share (HK\$)			
- Basic	2.04	1.87	+9%
Excluding property revaluations	1.61	1.13	+42%
Net asset value per share attributable to the Company's shareholders (HK\$)	11.8	8.99	+31%
Dividend per share (HK\$)	0.55	0.45	+22%
Interim	0.13	0.10	+30%
Final	0.42	0.35	+20%

GROUP RESULTS AND DIVIDENDS

Despite achieving its 2008 earnings target by the end of 2005, Kowloon Development Company Limited (the “Company”) continued its robust growth in 2006. The Group’s profit attributable to shareholders for the year ended 31 December 2006 amounted to HK\$1,346 million (2005: HK\$1,059 million) representing a 27% increment over that of 2005. Excluding investment property revaluation gains net of deferred tax, underlying net profit rose 67% to HK\$1,063 million. Based on the weighted average number of 660,839,603 shares in issue during the year (2005 : 566,767,850 shares), the underlying earnings per share rose 42% to HK\$1.61 (2005: HK\$1.13 per share).

The Board of Directors has recommended the payment of a final dividend of HK\$0.42 per share for 2006, an increase of 20% over 2005. Together with the interim dividend of HK\$0.13, the full year dividend for 2006 will amount to HK\$0.55 per share (2005 : HK\$0.45 per share), an increase of 22% over 2005.

The final dividend will be payable on 27 April 2007 to shareholders registered as at 18 April 2007.

BUSINESS REVIEW

2006 had been a year of importance with dynamic growth for the Group. Through several strategic major acquisitions during the year under review in Macau and Mainland China detailed below, the Group has attained a strong presence and successfully increased its land bank by acquiring projects for an aggregate gross floor area of 978,000 sq m in Macau and of 5,430,000 sq m in Mainland China. Benefited from strengthened capital base after a sequence of successful fund raising activities, with details below, for an aggregate proceeds of HK\$4,961 million to the Group during the year of 2006, the Group is well positioned to take advantage of quality opportunities which arise from time to time in the Greater China region, including Hong Kong, Macau and Mainland China. The Group’s turnover for the year under review grew 120% to HK\$2,908 million which primarily derived from two residential development projects, Mount Davis 33 in Hong Kong and La Baie Du Noble in Macau, and investment activities.

In April 2006, the Group, through its listed subsidiary, Polytec Asset Holdings Limited (“Polytec Asset”), entered into an agreement with the ultimate holding company to acquire an 80% interest in three property development projects in Macau with an aggregate gross floor area of approximately 978,000 sq m at a consideration of HK\$8,448 million. Polytec Asset financed the acquisition by issuing of 2,811,411,970 new shares at HK\$1.98 per share of which the Company subscribed for 1,598 million new shares, thus maintaining its shareholding percentage in Polytec Asset.

The three sites are located in the Orient Pearl District of the Macau Peninsula near the Macau-Zhuhai border and the intended landing point of the Hong Kong – Zhuhai – Macau Bridge, a 29 kilometers bridge linking Hong Kong, Zhuhai and Macau. The bridge will be a spur to Greater Pearl River Delta economic development and will play a pivotal role in facilitating economic development in the region. The Group intends to develop these sites into luxury residential buildings with retail, recreational and car parking facilities. The projects will be carried out in phases. The foundation work of Lote V, being the first phase of the development, is scheduled to be commenced in March/April 2007. Completion of Lote V is expected to be in 2009/2010.

The weight of economic activity is moving north to Mainland China, where the World Bank is forecasting a GDP growth rate of 9.6% for 2007. In response the Group has actively expanded its portfolio of quality development properties by acquiring three further sites in prime locations in Mainland China, reflecting the Group's confidence in the economy and real estate market of China.

In June 2006, through a public bidding process, the Group acquired the development right of a plot of land with a site area of 1.45 million sq m in the west of Daba Road in the Dong Ning District of Shenyang for a consideration of RMB830 million to be paid by two installments with the final payment due in mid 2007. Shenyang is the largest city and economic hub in the north-eastern region of China with dynamic economic growth and increasing purchasing power in recent years. The project has a planned aggregate gross floor area of 2.9 million sq m which has been approved by the Shenyang municipal government for residential and commercial development. The first phase of the project has commenced and is scheduled to be completed in 2008.

In September 2006, the Company jointly with CITIC South China (Group) Co., Ltd., on a 50:50 basis, made a successful bid for seven pieces of land located in Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, with an aggregate site area of approximately 4 million sq m at a consideration of RMB3,030 million. The consideration payable on a 50:50 basis will be settled by installments with the last payment due in 2008. The project has a planned aggregate gross floor area of approximately 1.60 million sq m and will be developed into a luxury residential and commercial complex to meet the increasing demand for high-end housing and office premises.

In addition to the above two acquisitions, in December the Company entered into an agreement with Tianjin Binhai Mass Transit Development Co., Ltd to undertake a mixed use development located in the prosperous central business district of Tianjin at an aggregate consideration of RMB3,500 million, which will be settled by several installments over a five-year period. The site has a total area of approximately 137,940 sq m and will be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium with a total gross floor area of approximately 930,000 sq m. The project is excellently located next to the Beijing-Tianjin High-speed Railway System, which will commence services in 2008 with a 30-minute ride to Beijing where the 2008 Olympic Games will take place.

All new projects in Mainland China will be developed in phases. The Group is optimistic to witness a robust property market with persistent demand for quality properties in the near future and will continue to replenish its land bank actively but cautiously to optimize its earnings potential.

The Company successfully placed 113,353,000 shares in May and 87,000,000 shares in September at respective placing prices of HK\$12.40 and HK\$13.25 per share. From these placements, aggregate new capital of HK\$2,558 million was raised for use in the expansion and development of the Group's business mainly in Mainland China.

To further strengthen the Group's capital base, the Company raised a further HK\$5,293 million of gross proceeds by issuing 383,560,425 rights shares at HK\$13.80 per rights share on the basis of one rights share for every two shares. The rights issue was successfully completed in February 2007.

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

With its strengthened capital base, the Group is well prepared for further expansion in the Greater China region in the years ahead.

The residential project at No.31 Robinson Road Mid-Levels in Hong Kong will be completed by the end of 2007. It offers a total of 84 luxury residential units, with modern clubhouse facilities, covering a gross floor area of approximately 11,900 sq m. The property will be released to the market shortly. With tight supply of luxury residential property and persistent demand for new luxury developments in prime areas on Hong Kong Island, we expect the project to be well received and the 2007 results to benefit accordingly.

The Group's important residential and commercial development project at 35 Clear Water Bay Road, Ngau Chi Wan, with an estimated gross floor area of approximately 196,400 sq m, had obtained an approval from the Town Planning Board on the basis of a revised master layout plan in February 2006. The Group is currently liaising with relevant government departments in connection with the land exchange conditions.

In Taipa Macau, Pacifica Garden, a 58% owned residential and commercial project of Polytec Asset is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

The market for residential property continued to develop healthily and remained active in 2006 with demand driven by both end-users and investors. Sentiment in the sales and investment market improved upon the recent pause in US interest rate hikes and intensified mortgage finance competition amongst the banks leading to a rise in the volume of transaction.

Property sales rose to HK\$1,204 million in 2006, an increase of 127% over 2005 arising mainly from the developments at Mount Davis 33 in Hong Kong and La Baie Du Noble in Macau.

Mount Davis 33 is a joint venture residential project with the Urban Renewal Authority. It offers top-quality residential units with full clubhouse facilities and a lush landscaped environment giving every unit a panoramic seaview. It was released to the market and all the 89 residential units were successfully sold before the end of 2006 due to its prime location, user-oriented design and quality finishes. This property project has also achieved the rating of Platinum Standard from The Hong Kong Building Environmental Assessment Method (HK-BEAM) Society, which assesses new building premises for their environmental design.

Another major profit contributor was the Group's interest in the residential and commercial development in Macau, La Baie du Noble, in which the Group has an 80% interest. This development has an aggregate gross floor area of approximately 147,700 sq m and was completed in the second half of 2006. The development, which is one of the most prestigious in Macau whose contemporary designs and superior finishes have set new quality standards for residential developments, was well received by the market with a majority of residential units being sold off plan. The retained duplex units will be released to the market in the first half of 2007.

In light of the enhanced affordability for homebuyers, the Group will continue to offer quality projects for sale as planned.

The property market in Hong Kong benefited from the strength of the economy and the buoyant stock market, leading to a robust growth of investment activities across all sectors. Business activity grew during 2006 which further accelerated the demand for office space in core and non-core districts. Capital values and rentals rose moderately over the year. The Group enjoyed a positive growth in office rental revenue for the financial year under review. The gross rental income generated by the Group's investment property portfolio in 2006 was HK\$224 million, an increase of 5.7% compared to 2005. The increase was largely due to improved rental income from both the office and the retail tenancies of the Group's flagship property, Pioneer Centre.

Property Development

The status of the Group's major projects under development is shown below :

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Status	Expected Date of Completion
MAINLAND CHINA					
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	100	2,900,000	Site clearance works in progress	2008 (first phase)
MACAU					
<i>Villa de Mer</i> * Novos Aterros da Areia Preta The Orient Pearl District Macau	Residential and Commercial	48	126,400	Foundation to be commenced in March/April 2007	2009/2010
<i>Pacifica Garden</i> * The Taipa District Macau	Residential and Commercial	35	35,900	Foundation completed	2008
HONG KONG					
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	11,900	Superstructure works in progress	2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	100	196,400	Foundation and site formation works in progress	2009/2010
TOTAL			3,270,600		

Note: * Owned by the Group's 59.59% owned subsidiary Polytec Asset Holdings Limited.

Details of the Group's Major Land Held For Development

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Expected Date of Completion
MAINLAND CHINA				
Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	50	1,600,000	2009 (first phase)
Lot No. Jin Dong Liu # 2004-066 Intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	100	930,000	2010 (first phase)
MACAU				
Lotes T and T1* Novos Aterros da Areia Preta The Orient Pearl District Macau	Residential and Commercial	48	164,200	2010
Lote P* Novos Aterros da Areia Preta The Orient Pearl District Macau	Residential and Commercial	48	687,700	2011 (first phase)
HONG KONG				
Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	100	5,600	2009
TOTAL			3,387,500	

Notes:

* Owned by the Group's 59.59% owned subsidiary Polytec Asset Holdings Limited.

The project company for holding the land in Tianjin is in the process of formation and it will become a subsidiary of the Group.

Shenyang Dong Ning District, PRC

The site will be developed by phases and the first phase development has commenced.

31 Robinson Road, Mid-Levels, Hong Kong

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

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

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

Foshan Nanhai District, PRC

The seven sites will be developed in line with the government approved plan for a mixed-use scheme to include residential and commercial premises, hotels, restaurants and recreational and cultural areas. The site will be developed by phases and is undergoing site investigation and overall layout planning.

Tianjin Hedong District, PRC

The site is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium.

Belcher's Street, Hong Kong

The foundation and construction works for the Group's re-development project with site area of 564 sq m at Belcher's Street on Hong Kong Island will begin in the second half of 2007. This project is expected to be completed by 2009 and will provide a total gross floor area of approximately 5,600 sq m.

Property Investment

Robust growth of the Hong Kong economy in 2006 with higher GDP growth, declining unemployment, abated inflationary pressures, rising personal income and continued resilient retail sales supported by buoyant tourism strengthened investor confidence. Business operators' expansion plans continued to push up the rentals of both the office and the retail sectors, though at a slower speed in the second half of year 2006. Increasing demand for prime shopping areas and large size office spaces has been seen throughout the year 2006.

The Group's investment properties, excluding that of the listed subsidiary Polytec Asset, amounted to a total attributable gross floor area of 60,317 sq m.

For the year under review, the Group's gross rental income rose 5.7% to HK\$224 million compared with the previous year. The average occupancy rate at the year end was 98%.

Total rental income from Pioneer Centre, the Group's flagship property, for the year rose to HK\$179 million from HK\$170 million in 2005. The increase was largely due to an increase in rental contribution from the retail tenancies and the higher rental rates secured upon renewal of the major tenancies in the office portion.

Property Management

At the end of 2006, the Group and its associated companies together manage properties totalling over 1.30 million sq m (2005 : 790,000 sq m) which included luxury residential and serviced apartments, public housing estates and commercial premises.

Financing and Investments

The Group enjoyed a fruitful year in 2006 as the securities market boomed in 2006 in part due to the inflow of capital from mainland corporations. At the year end, the Group had financial investments totalling HK\$1,409 million, with HK\$151 million in long term investment and HK\$1,258 million in short term investment. The Group's financing and investment activities contributed an operating profit of HK\$325 million as compared with HK\$124 million in 2005. This remarkable increment of 162% in operating profit owed much to the rebounding stock market triggered by outperforming China-concept shares. Because of the expected economic growth of Mainland China and the accelerating appreciation potential of Renminbi in the year 2007, China-concept shares should remain strong. The Group will continue to adopt a prudent and cautious approach in seeking investment opportunities to sustain growth for its investment portfolio.

Shenzhen Properties & Resources Development (Group) Limited (“Shenzhen Properties”)

Waiver from the obligation to make a general offer for the remaining 29.7% issued shares in Shenzhen Properties was not granted by the China Securities Regulatory Commission (“CSRC”). Accordingly in May 2006, the Group initiated the general offer process and paid HK\$120 million as a deposit. Subsequently in the same month, the Group was advised by the CSRC that the examination of the general offer documents for the remaining issued shares in Shenzhen Properties would be temporarily suspended pending verification of certain issues by the State Council State-owned Assets Supervision and Administration Commission. The verification process was completed and a report was issued in February 2007. The Group is now pending instruction from CSRC for further action.

Polytec Asset Holdings Limited

For the year ended 31 December 2006, Polytec Asset, a 59.59% owned listed subsidiary of the Company, recorded an operating profit of HK\$142 million representing a 156% growth when compared with the previous year. The profit attributable to shareholders of Polytec Asset was HK\$30 million as against HK\$477 million for 2005. The 2005 figure of HK\$477 million included a net property revaluation gain of HK\$420 million and an amount of HK\$19 million in respect of the recovery of a previously written off loan whereas a net property revaluation loss of HK\$4.6 million was included in 2006. After excluding net property revaluations and the loan recovery the underlying profits attributable to shareholders of Polytec Asset decreased by HK\$4.3 million. Polytec Asset contributed HK\$7.7 million to the Group's profit in 2006.

Property Development and Investments

Polytec Asset acquired an 80% interest, from its ultimate holding company, three development projects, namely Villa de Mer (also known as Lote V), Lote P and Lotes T and T1 in April 2006. The projects, located in the Orient Pearl District of Macau, have an aggregate gross floor area of approximately 978,000 sq m.

Villa de Mer comprises five residential towers with approximately 1,300 units erected on top of a podium with retail, recreational and car parking spaces and has a total gross floor area of approximately 126,400 sq m. The foundation work is scheduled to be commenced in March/April 2007. The development is expected to complete in 2009/2010. Presale of the project has started in November 2006 and was well received by the market. In view of the prosperous sentiment in Macau's property market, over 50% of the total residential units are sold off plan.

Lote P, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 687,700 sq m. This site will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces by three phases. Construction of phase 1 is expected to commence in the second half of 2007 and be completed in 2011.

Lotes T and T1, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 164,200 sq m. This site currently is a bare site but will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces. Construction works is expected to commence in the second half of 2007 and be completed in 2010.

Pacifica Garden, a 58% owned residential and commercial project in Taipa Macau has finished its foundation work and the whole development is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

Renovation of the retail portion of Macau Square, a 50% owned commercial property located at Av. Do Infante D. Henrique, total retail space with gross floor area of approximately 8,400 sq m, has been completed and almost entirely let out. Renovation for the office portion of approximately 28,200 sq m is now progressing smoothly and the occupancy is now at about 60%.

Renovation works of Va long, a commercial building situated at Praça da Amizade with an aggregate gross floor area of approximately 1,900 sq m is close to completion. With the benefit of the refurbishment, we expect to attract potential tenants for the property in the near future.

China Plaza, with 70% owned office units situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau, is ready for sale. Following refurbishment an encouraging number of enquiries from potential buyers is being received.

Other Businesses

To concentrate on the Group's core business in property development and investment, the Group disposed of its entire 20% equity interest in the issued share capital of Southern Success Corporation, a company engaged in sales and distributions of apparel, shoes and accessories, for a consideration of US\$11,600,000 (equivalent to approximately HK\$90,480,000) in March 2006 with a gain of approximately HK\$47 million recognised by the Group.

By expansion of cold storage capacity and the adoption of new marketing strategies, the ice manufacturing and cold storage business of Polytec Asset improved its operating profit this year.

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2006 amounted to HK\$2,180 million, a decrease of HK\$462 million as compared with 2005 year end. The gearing ratio, calculated on the basis of bank loans to equity attributable to shareholders of the Company, was reduced from 52% as at 31 December 2005 and 40% as at 30 June 2006 to 24% as at 31 December 2006. The improvement in gearing was due to the equity fund raising activities in 2006. During the year under review, the Company raised a net total of HK\$2,512 million with the top-up placements of an aggregate of 200,353,000 shares in May and September 2006.

During the year, of the acquisition consideration of HK\$8,448 million for the Macau projects, HK\$5,490 million was settled and HK\$2,958 million was financed by a deferred settlement arrangement. Funds were raised by the issue of 2,811,411,970 new shares in Polytec Asset at HK\$1.98 per share of which 1,598,000,000 new shares were subscribed by the Company. A loan from the ultimate holding company amounting to HK\$2,194 million was obtained by the Company to finance the subscription. As at 31 December 2006, the amount due to the ultimate holding company in relation to the acquisition of interests in property developments in Macau and the loan totalled HK\$5,884 million. This amount is unsecured, interest bearing and has no fixed term of repayment. Interest is charged with reference to bank lending rates. Taking account of the financial support provided by the ultimate holding company, the gearing ratio is 89%. New equity of HK\$5,293 million was raised with the rights issue completed in February 2007. This further strengthened the financial position of the Group and reduced the gearing ratio to a low level of 19%.

During the year under review, the Group paid HK\$120 million as deposit for the general offer for the remaining 29.7% shares in relation to the proposed acquisition of Shenzhen Properties. With the expansion of its exposure in Mainland China, the Group has paid HK\$534 million for the development project in Shenyang. An amount of HK\$389 million has been contributed by the Group to the joint venture company for the land acquisition of properties in Foshan. In December 2006, the Group further increased its investment in Mainland China by acquiring a land interest in Tianjin, and RMB 500 million (equivalent to approximately HK\$498 million) has been paid for the first installment of the purchase consideration.

In addition to the fund raising activities, the Group also generated substantial cash inflow from its operation. An amount of HK\$600 million was contributed by the Group's investment in La Baie Du Noble in Macau. Sale proceeds from Mount Davis 33 generated cash amounted to HK\$581 million. Presales of Pacifica Garden added a further cash inflow of HK\$253 million during the year. US\$11.6 million (approximately HK\$90 million) was obtained from the disposal of Southern Success Corporation, an associated company of the Group.

All banking facilities are arranged on a floating rate basis with HK\$700 million bank loans being hedged by structured swaps. Management will continue to monitor and manage the Group's exposure to interest rate risks.

The recent appreciation of the RMB will increase the investment cost of property projects of the Group in Mainland China. Nevertheless, the Group will benefit from the associated currency gain and the future revenue generated from the projects which are denominated in RMB. The Group's exposure to other currency risk is insignificant.

With committed undrawn financing facilities in place, recurrent cash inflow from investment properties, property sales and the proceeds from the rights issue in February 2007, the Group has sufficient financial resources to satisfy its commitments, working capital requirements and for its future business growth, especially in the market of Mainland China.

Capital Commitments

As at 31 December 2006, the Group had contracted commitments of HK\$888 million in respect of the acquisition of Shenzhen Properties and development projects in Mainland China. Commitments for construction work of investment properties amounted to HK\$95 million.

Pledge of Assets

As at 31 December 2006, properties and securities amounting to HK\$6,040 million and time deposits of HK\$66 million were pledged to financial institutions to secure credit facilities and as margin for securities investments. The Group had no contingent liabilities as at 31 December 2006.

PROSPECTS

The strong performance of economy in Hong Kong, Mainland China and Macau will raise the residential and office property markets in both transaction volume and price. Rising incomes, increased investor confidence and continuous inflows of capital have led to buoyant property markets across the Greater China region. The luxury residential, high-quality office and shopping mall sectors will remain the focus of the market with persistent demand remaining ahead of supply. Austerity measures put in place for the property market should help sustain healthy long-term development in Mainland China. The Group is stepping up the pace of its Mainland China investments to capitalize on the opportunity.

The strategic major acquisitions made during the year 2006 have set a solid base for the Group's development in the property markets of Macau and Mainland China. The Group is confident that these acquisitions will contribute substantial returns to the Group in the next few years.

To prepare for further rapid growth and development of the Group, a total of about HK\$10,254 million was raised since the beginning of 2006 in order that the Group preserves a healthy capital base for further acquisitions.

Besides pursuing the current three-tier property development direction and the aggressive yet prudent approach, the Group is currently searching for projects which will provide steady recurrent income for the future.

OTHER INFORMATION

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions throughout the accounting year ended 31 December 2006, save for the exceptions specified and explained below.

Code Provision A.2.1 –

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

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

Code Provision A.4.1 –

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

Non-executive Directors of the Company do not have a specific term of appointment. However, they are subject to retirement by rotation and re-election at the conclusion of the third annual general meeting of the Company after his election or re-election according to the Company's Articles of Association. As such, in the opinion of the Directors, the principle of Code A.4 that all directors should be subject to re-election at regular intervals has been up held.

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

Save as disclosed in the section of the Share Placements, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Share Placements

On 4 May 2006, the Company entered into a top-up placing agreement with Intellinsight Holdings Limited (“Intellinsight”) in respect of the issue and subscription of up to 113,353,000 new ordinary shares of the Company at HK\$12.40 per share. The placees included institutional and professional investors. The net proceeds from the placed shares of approximately HK\$1,377 million was used by the Company as to HK\$970 million to fund the subscription of shares in Polytec Asset and the remainder of approximately HK\$407 million was used for business development and expansion.

On 15 September 2006, the Company entered into a placing agreement with Intellinsight and the placing agent pursuant to which the aggregate 87,000,000 new ordinary shares were placed at HK\$13.25 per share. The placees procured by the placing agent included professional, institutional and/or individual investors. The net proceeds from the placed shares of approximately HK\$1,133 million was used by the Company for property investment and development business in Mainland China.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 19 April 2007 to Thursday, 26 April, 2007, both dates inclusive. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Registrars, Computershare Hong Kong Investor Services Limited, at 1712-6, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 18 April 2007.

Publication

The Annual Report containing all the information as required by Appendix 16 of the Listing Rules will be published on the Company’s website at www.kdc.com.hk and the website of the Stock Exchange of Hong Kong on or about 30 March 2007.

The consolidated results of the Group for the year ended 31 December 2006, together with the comparative figures of 2005 are as follows:

Consolidated income statement

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2	2,908,171	1,320,301
Other revenue		14,125	5,475
Other net income	3	115,845	20,380
Depreciation and amortization		(9,646)	(1,304)
Staff costs		(79,994)	(51,845)
Cost of inventories		(1,742,805)	(567,785)
Fair value changes on investment properties		346,608	505,818
Other operating expenses		(69,462)	(49,335)
Profit from operations	2	1,482,842	1,181,705
Finance costs	4	(178,400)	(17,694)
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	5	162,876	26,482
Profit before taxation		1,519,714	1,208,366
Income tax	6	(153,708)	(144,962)
Profit for the year		1,366,006	1,063,404
Attributable to:			
Shareholders of the Company		1,346,261	1,059,153
Minority interests		19,745	4,251
Profit for the year		1,366,006	1,063,404
Earnings per share - Basic	7	HK\$2.04	HK\$1.87
Dividend per share	8	HK\$0.55	HK\$0.45

Consolidated balance sheet as at 31 December 2006

	Note	2006		2005	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
- Investment properties			4,494,630		4,147,630
- Leasehold land held for own use			259,022		265,553
- Other property, plant and equipment			40,740		39,503
			<u>4,794,392</u>		<u>4,452,686</u>
Goodwill			16,994		16,994
Interests in property development			9,490,063		-
Interest in jointly controlled entities			789,209		394,507
Interest in associated companies			12,040		56,568
Investments in securities			150,635		65,220
Loans and advances			40,430		55,320
Deferred tax assets			3,970		9,303
			<u>15,297,733</u>		<u>5,050,598</u>
Current assets					
Interest in property development		122,124		575,298	
Inventories		4,054,734		3,194,826	
Trade and other receivables	9	1,045,889		320,440	
Loans and advances		56,942		63,523	
Amounts due from jointly controlled entities		258,053		247,192	
Amount due from an associated company		185		207	
Derivative financial instruments		36,074		25,811	
Investments in securities		1,258,752		242,445	
Time deposit (pledged)		65,994		38,205	
Cash and cash equivalents		401,830		104,706	
		<u>7,300,577</u>		<u>4,812,653</u>	
Current liabilities					
Trade and other payables	10	1,087,207		338,804	
Amount due to ultimate holding company		4,985		-	
Amount due to a major shareholder		-		140,791	
Amount due to minority shareholders		25,082		31,924	
Derivative financial instruments		16,590		7,741	
Bank loans		888,843		978,413	
Current taxation		94,363		44,814	
		<u>2,117,070</u>		<u>1,542,487</u>	
Net current assets			<u>5,183,507</u>		<u>3,270,166</u>
Total assets less current liabilities			<u>20,481,240</u>		<u>8,320,764</u>
Non-current liabilities					
Loan from ultimate holding company		2,857,548		2,635	
Amount payable to ultimate holding company		3,026,231		-	
Bank loans		1,290,700		1,663,600	
Deferred tax liabilities		734,230		667,940	
		<u>7,908,709</u>		<u>2,334,175</u>	
NET ASSETS			<u>12,572,531</u>		<u>5,986,589</u>
CAPITAL AND RESERVES					
Share capital			76,712		56,677
Reserves			8,976,072		5,040,735
Total equity attributable to shareholders of the Company			<u>9,052,784</u>		<u>5,097,412</u>
Minority interests			3,519,747		889,177
TOTAL EQUITY			<u>12,572,531</u>		<u>5,986,589</u>

Notes

1 Basis of preparation

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 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.

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. 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.

2 Segment information

(a) Business segments

	2006				
	Consolidated <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financing and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>
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	<u>(53,421)</u>				
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	<u>162,876</u>				
Profit before taxation	1,519,714				
Income tax	<u>(153,708)</u>				
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	<u>767,816</u>				
Total assets	22,598,310				
Segment liabilities	1,108,400	871,972	80,034	136,321	20,073
Unallocated	<u>8,917,379</u>				
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

(a) *Business segments (continued)*

	2005				
	Consolidated <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financing and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>
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	<u>(38,276)</u>				
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	<u>26,482</u>				
Profit before taxation	1,208,366				
Income tax	<u>(144,962)</u>				
Profit for the year	<u>1,063,404</u>				
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	<u>387,407</u>				
Total assets	<u>9,863,251</u>				
Segment liabilities	386,660	204,438	82,999	80,536	18,687
Unallocated	<u>3,490,002</u>				
Total liabilities	<u>3,876,662</u>				
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 HK\$225,743,000 (2005: HK\$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 HK\$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.

(b) *Geographical segments*

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

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

3 Other net income

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

4 Finance costs

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
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	<u>(76,135)</u>	<u>(50,207)</u>
	179,919	19,671
Less: Interest expense included as other operating expenses	<u>(1,519)</u>	<u>(1,977)</u>
	<u>178,400</u>	<u>17,694</u>
	=====	=====

5 Negative goodwill

In 2006, negative goodwill of HK\$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.

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

6 Income tax

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Current tax – Hong Kong	78,851	62,018
– Overseas	<u>3,234</u>	<u>-</u>
	<u>82,085</u>	<u>62,018</u>
Deferred tax		
Origination and reversal of temporary differences	10,967	(5,574)
Change in fair value of investment properties	<u>60,656</u>	<u>88,518</u>
	<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.

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 HK\$1,346,261,403 (2005: HK\$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	566,767,850	566,767,850
Effect of issue of new shares	<u>94,071,753</u>	<u>-</u>
Weighted average number of shares used in calculating basic earnings per share	<u>660,839,603</u> =====	566,767,850 =====

8 Dividends

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

In 2006, the final dividend payable was calculated on 1,150,681,275 shares in issue by the Company after the rights issue of 383,560,425 shares in February 2007.

9 Trade and other receivables

Included in this item are trade receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as at 31 December as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
0 - 90 days	113,212	54,498
91 - 180 days	1,521	1,614
Over 180 days	<u>7,973</u>	<u>9,466</u>
	122,706 =====	65,578 =====

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.

10 Trade and other payables

Included in this item are trade payables with an ageing analysis as at 31 December:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Not yet due or on demand	561,702	46,612
0 - 90 days	4,427	20,047
91 - 180 days	104	137
Over 180 days	<u>-</u>	<u>52</u>
	566,233 =====	66,848 =====

By Order of the Board
Kowloon Development Company Limited
Or Wai Sheun
Chairman

Hong Kong, 15 March 2007

As at the date of this announcement, the Board comprises four Executive Directors, being Mr. Or Wai Sheun (Chairman), Ms. Ng Chi Man, Mr. Lai Ka Fai and Mr. Or Pui Kwan; three Non-executive Directors, Mr. Keith Alan Holman (Deputy Chairman), Mr. Tam Hee Chung and Mr. Yeung Kwok Kwong; and three Independent Non-executive Directors, Mr. Li Kwok Sing, Aubrey, Mr. Lok Kung Chin, Hardy and Mr. Seto Gin Chung, John.

Please also refer to the published version of this announcement in the South China Morning Post.