



九龍建業有限公司
Kowloon Development Company Limited

Macau

China

COMBINING STRENGTH FOR
QUANTUM GROWTH

Hong
Kong

2005

INTERIM REPORT

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Financial Highlights

	Six months ended		Change
	30 June 2005 HK\$'000	30 June 2004 HK\$'000 (restated)	
Turnover	483,940	381,917	+27%
Profit attributable to Company's shareholders	300,510	152,967	+96%
Excluding property revaluations	182,176	119,520	+52%
Earnings per share (HK cents)			
— Basic	53.0	27.4	+93%
Excluding property revaluations (HK cents)	32.1	21.4	+50%
Interim dividend per share (HK cents)	10.0	7.0	+43%

Interim Results and Dividend

The Group's unaudited profit attributable to the Company's shareholders for the six months ended 30 June 2005 amounted to HK\$301 million (earnings per share of 53 HK cents) as compared to HK\$153 million (restated) (earnings per share of 27.4 HK cents - restated), an increase of 96% over the comparable period last year. These interim results have been reviewed by the Company's Audit Committee and auditors. It should be noted that a number of new accounting standards which became effective on 1 January 2005 required restatement of the Group's previously reported results.

Excluding property revaluations, profit attributable to the Company's shareholders and earnings per share would have been HK\$182 million and 32.1 HK cents respectively, representing an increase of 52% and 50% respectively over the comparable period last year.

The Board of Directors has declared an interim dividend of 10 HK cents per share compared with 7 HK cents in the first half of 2004. On a year-over-year basis, the interim dividend per share rose 43%. This increase in the dividend reflects the management's confidence in the earnings growth prospects for the Group. The dividend will be payable on 28 October 2005 to shareholders registered as at 21 October 2005.

Business Review

We have reported a record interim net profit for 2005. Indeed, the Group's core property business continued to benefit from management's long-term investment planning and strategies over the past years, as well as the favourable economic environment in the first half of the year. The Group is expected to maintain its robust growth momentum in the second half of the year.

In April 2005, through an 85% owned subsidiary, the Group entered into an agreement to acquire 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") for a cash consideration of RMB459 million ("Acquisition"). Shenzhen Properties, indirectly owned by the Shenzhen Municipal Government, is an enterprise listed on the Shenzhen Stock Exchange and principally engaged in real estate development, investment and property management in the People's Republic of China ("PRC").

The Acquisition was approved by the shareholders at an extraordinary general meeting on 20 July 2005. It should be noted that the completion is subject to the approvals to be obtained from the relevant PRC regulatory authorities and the process has been progressing satisfactorily so far.

Property Development

In the first six months of the year, the Group's property sales turnover rose to HK\$217 million, representing a 37% increase over the same period last year. And more encouragingly, a significantly higher operating profit of HK\$105 million was recorded for the period, up 148% from the comparable period in 2004. The income was primarily generated from the sales of the residential units of Padek Palace at No.377 Prince Edward Road West, Kowloon.

In Macau, we have made a success of the pre-sale in La Baie Du Noble, the commercial and residential property development project which we acquired an 80% interest in January last year, with over 95% of residential units being sold by the end of June this year. We intend to release the rest of units to the market after completion of the construction work by the end of the year.

The construction work of all our three major projects in Hong Kong is progressing smoothly. The status of the Group's projects in progress is shown below.

Property development projects in progress

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq.ft.)	Status	Expected Date of Completion
Macau					
La Baie Du Noble The Orient Pearl District Macau	Commercial and Residential	80	1,280,000	Superstructure works in progress	December 2005
Hong Kong					
No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	Joint Venture with Urban Renewal Authority	78,372	Superstructure works in progress	1st half 2006
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	128,084	Superstructure works in progress	1st half 2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	100	2,163,295	Foundation works in progress	2008/09
			3,649,751		

Property Investment

With overall rental levels improving in Hong Kong over the past year, the Group's gross rental income generated by its investment property portfolio for the first half of 2005 rose to HK\$99 million, an increase of 9.6% compared with the same period in 2004. The average occupancy rate for the Group's investment property portfolio remained above 90% in the first half of the year.

Property Management

The size of the portfolio managed by the Group and its associated companies as at 30 June 2005 remains at about 7.7 million sq. ft. and overall property management contributed HK\$1.4 million to the Group's profit, an increase of 40% over the comparable period last year. Despite a relatively insignificant net income generated for the Group, our property management team enables us to provide quality management services to our properties.

Financing and Investments

The performance of our mortgages business and investment division was satisfactory in the first six months of the year. Financing and investment activities combined contributed HK\$37 million to the Group's operating profit, a 45% increase compared with the same period last year.

Other Businesses

Among our other businesses, the performance of the footwear wholesale and retail business of a 20% owned company, Southern Success Corporation, has continued to improve, contributing HK\$4.1 million to the Group's net profit, a 17% increase compared with the same period in 2004.

Outlook

We have been striving to grow the Company at a sustainable rate since the change of management in early 2002. Over the past three years, we have achieved an average net earnings growth rate of 40% per year and more importantly we have also strengthened our foundation for future growth. This year is expected to be the most rewarding year for the Group since 2002. Looking beyond 2005, we are confident that the Group will continue its dynamic growth.

Indeed, the Group is now well positioned in its three major markets. Last year, we acquired an 80% interest in La Baie Du Noble in Macau and it represented an important step for us to establish our business presence there. The recent proposed acquisition of a controlling stake in Shenzhen Properties represented another significant step for the Group to expand its core property business into the PRC. More importantly, Shenzhen Properties will serve as an important platform for the Group to accelerate its development in the PRC.

Our penetration into the Macau and PRC markets has essentially set a stage for the Group to readily access the best investment opportunities in addition to the Hong Kong market. We believe this strategy will provide the Group with greater investment flexibility and deliver the best return to our shareholders.

Finally, I would like to take this opportunity to express my gratitude to my fellow Directors for their guidance; and to all the staff for their diligence and dedication.

Or Wai Sheun

Chairman

Hong Kong, 7 September 2005

Financial Resources and Borrowings

The total bank loans of the Group as at 30 June 2005 amounted to HK\$2,107 million representing an increase of HK\$355 million from 31 December 2004. The gearing ratio, calculated on the basis of bank loans to total equity was 48%, a slight increase from the 45% as at 31 December 2004. During the first half of the year, the Group has paid HK\$192 million in relation to the proposed acquisition of Shenzhen Properties and repaid HK\$240 million to a subsidiary of the ultimate holding company. Cash generated from the sale of residential units in Padek Palace at No.377 Prince Edward Road West for the first six months in 2005 amounted to HK\$155 million.

All banking facilities are arranged on a floating rate basis with HK\$700 million bank loans being hedged by structured swaps engaged during the period under review.

The remaining 50% of the consideration (50% of RMB459 million) for the proposed acquisition of Shenzhen Properties will be payable after the relevant PRC regulatory approvals have been obtained, and the waiver to make a general offer for the shares in Shenzhen Properties has been obtained or upon completion of such obligations. The recent Chinese currency reform will increase the total costs of the proposed acquisition by approximately HK\$3 million according to the current exchange rate. The Group's exposure to other currency risks is insignificant.

With committed undrawn banking facilities in place, recurrent rental revenue and cash generated from property sales in Hong Kong and Macau, the Group has sufficient funds to satisfy its working capital needs, capital commitments and the obligations for the acquisition of Shenzhen Properties.

Commitments

As at 30 June 2005, the Group had contracted commitments of HK\$684 million for properties, HK\$183 million for acquisition of subsidiaries and another HK\$45 million for financial investments.

Commitments authorized but not contracted for related to properties under development amounted to HK\$1 million.

Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK\$9 million to insurance companies in respect of performance bonds entered into by associated companies engaged in property management services.

As at 30 June 2005, properties of the Group with an aggregate carrying value of HK\$4,108 million were pledged to banks to secure credit facilities.

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2005 \$'000 (unaudited)	2004 \$'000 (unaudited and restated)
Turnover	3	483,940	381,917
Other revenue		1,284	1,006
Depreciation and amortization		(503)	(327)
Staff costs		(19,439)	(15,498)
Cost of inventories		(232,066)	(191,662)
Fair value changes on investment properties	8	143,436	40,543
Other operating expenses		(18,111)	(34,832)
Profit from operations	3	358,541	181,147
Finance costs	4(a)	(2,480)	(5,590)
Share of profits less losses of associated companies		4,682	4,379
Profit before taxation	4	360,743	179,936
Income tax	5	(60,195)	(26,928)
Profit after taxation		300,548	153,008
Attributable to :			
Shareholders of the Company	15	300,510	152,967
Minority interests	15	38	41
Profit after taxation	15	300,548	153,008
Earnings per share			
Basic	7	53.0 cents	27.4 cents
Dividend per share	6(a)	10.0 cents	7.0 cents

The notes on pages 13 to 34 form part of the interim financial report.

Consolidated Balance Sheet

(Expressed in Hong Kong dollars)

	Note	At 30 June 2005		At 31 December 2004	
		\$'000 (unaudited)	\$'000 (unaudited)	\$'000 (audited and restated)	\$'000 (audited and restated)
Non-current assets					
Fixed assets					
— Investment properties			3,628,630		3,461,940
— Other property, plant and equipment			2,462		2,563
			3,631,092		3,464,503
Interest in leasehold land held for own use under an operating lease	8		2,044		2,059
Interest in associated companies			51,708		46,026
Investments in securities			111,110		110,099
Loans and advances			50,315		60,158
Deferred tax assets			3,592		3,223
			3,849,861		3,686,068
Current assets					
Interest in property development	10	748,484		400,000	
Inventories	11	2,107,811		2,126,451	
Trade and other receivables	12	379,901		209,143	
Loans and advances		83,247		84,834	
Amount due from an associated company		143		83	
Derivative financial instruments		10,693		—	
Investments in securities		112,418		129,251	
Cash and cash equivalents		27,072		44,497	
		3,469,769		2,994,259	
Current liabilities					
Trade and other payables	13	223,733		491,970	
Bank loans		757,265		665,442	
Current taxation		54,271		24,677	
		1,035,269		1,182,089	
Net current assets			2,434,500		1,812,170

	Note	At 30 June 2005		At 31 December 2004	
		\$'000 (unaudited)	\$'000 (unaudited)	\$'000 (audited and restated)	\$'000 (audited and restated)
Total assets less current liabilities			6,284,361		5,498,238
Non-current liabilities					
Loan from ultimate holding company	14	3,766		7,519	
Bank loans		1,349,744		1,086,987	
Other payables		62,263		62,263	
Deferred tax liabilities		469,698		444,192	
			1,885,471		1,600,961
Net assets			4,398,890		3,897,277
Total equity attributable to shareholders of the Company					
Share capital			56,677		56,677
Reserves			4,340,967		3,839,392
	15		4,397,644		3,896,069
Minority interests	15		1,246		1,208
Total equity	15		4,398,890		3,897,277

Approved and authorized for issue by the board of directors on 7 September 2005.

The notes on pages 13 to 34 form part of the interim financial report.

Consolidated Statement of Changes in Equity

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2005		Six months ended 30 June 2004	
		\$'000	\$'000	\$'000	\$'000
		(unaudited)	(unaudited)	(unaudited and restated)	(unaudited and restated)
Total equity at 1 January					
Attributable to shareholders of the Company (as previously reported at 31 December)	15	4,253,761		3,286,773	
Minority interests (as previously presented separately from liabilities and equity at 31 December)	15	1,208		1,476	
	15	4,254,969		3,288,249	
Prior period adjustments arising from changes in accounting policies	2(a)(i) & (ii), 15	(357,692)		(312,368)	
As restated, before opening balance adjustment	15	3,897,277		2,975,881	
Opening balance adjustment arising from changes in accounting policies	2(a)(i), 15	172,842		—	
At 1 January, after prior period and opening balance adjustments			4,070,119		2,975,881
Net income for the period recognized directly in equity					
Surplus on revaluation of investment properties (as previously reported)				40,543	
Prior period adjustment arising from changes in accounting policies	2(a)(iv)			(40,543)	
Surplus on revaluation of investment properties (2004 : as restated)			—		—
Changes in fair value of equity securities available-for-sale	15		(5,726)		—
Changes in fair value of interest in property development	2(a)(iv), 15		175,641		—
Net income for the period recognized directly in equity (2004 : as restated)			169,915		—

	Note	Six months ended 30 June 2005		Six months ended 30 June 2004	
		\$'000 (unaudited)	\$'000 (unaudited)	\$'000 (unaudited and restated)	\$'000 (unaudited and restated)
Net profit for the period					
Attributable to shareholders of the Company (as previously reported)				119,625	
Minority interests (as previously presented separately in the income statement)				41	
				119,666	
Prior period adjustments arising from changes in accounting policies 2(a)(iii)				33,342	
Net profit for the period (2004 : as restated)	15		300,548		153,008
Total net income recognized for the period (2004 : as restated)			470,463		153,008
Attributable to :					
Shareholders of the Company		470,425		152,967	
Minority interests		38		41	
		470,463		153,008	
Dividends declared	6(b), 15		(141,692)		(124,689)
Movements in equity arising from capital transactions with shareholders of the Company					
Issue of shares	15		—		8,300
Net share premium received	15		—		547,945
Total equity at 30 June			4,398,890		3,560,445
Restatements of total net loss recognized for the period are attributable to :					
Shareholders of the Company					(7,201)
Minority interests					—
					(7,201)
Arising from restatements of :					
Net loss recognized directly in equity	2(a)(iv)				(40,543)
Net profit for the period	2(a)(iii)				33,342
					(7,201)

The notes on pages 13 to 34 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2005 \$'000 (<i>unaudited</i>)	2004 \$'000 (<i>unaudited and restated</i>)
Net cash used in operating activities	(203,309)	(25,675)
Net cash used in investing activities	(23,852)	(564,781)
Net cash from financing activities	209,736	587,463
Net decrease in cash and cash equivalents	(17,425)	(2,993)
Cash and cash equivalents at 1 January	44,497	8,889
Cash and cash equivalents at 30 June	27,072	5,896

The notes on pages 13 to 34 form part of the interim financial report.

1 Basis of preparation

This 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 (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 2004 annual financial statements.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, “Engagements to review interim financial reports”, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 35.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information 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 30 March 2005.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

2 Changes in accounting policies *(continued)*

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

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

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

	Note	Retained profits \$'000	Investment property revaluation reserve \$'000	Total equity \$'000
Effect of new policy (increase/(decrease))				
Prior period adjustments:				
<i>HKAS 17</i>				
Leasehold land held for development for sale	2(d)	(561)	—	(561)
<i>HKAS 40</i>				
Investment properties, net of deferred tax	2(b)	1,683,620	(2,040,751)	(357,131)
Total increase/(decrease) in equity before opening balance adjustment				
		1,683,059	(2,040,751)	(357,692)
Opening balance adjustment:				
<i>HKAS 39</i>				
Interest in property development	2(e)(ii)	172,842	—	172,842
Total effect at 1 January 2005				
		1,855,901	(2,040,751)	(184,850)

2 Changes in accounting policies *(continued)*

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

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

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

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

2 Changes in accounting policies *(continued)*

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

(iii) Effect on profit after taxation for the six months ended 30 June 2005 and 30 June 2004

The following table sets out adjustments that have been made to the profit after taxation for the six months period ended 30 June 2005 and 2004. As retrospective adjustment has not been made for all changes in policies, as explained in note 2(e), the amounts shown for the six months period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

		Six months ended 30 June	
	<i>Note</i>	2005	2004
		\$'000	\$'000
Effect of new policy (increase/(decrease))			
<i>HKAS 17</i>			
Leasehold land held for development for sale	2(d)	(105)	(105)
<i>HKAS 39</i>			
Derivative financial instruments	2(e)(i)	8,822	—
<i>HKAS 40</i>			
Investment properties, net of deferred tax	2(b)	118,334	33,447
Total effect for the period		127,051	33,342
Effect on earnings per share — basic		22.4 cents	6.0 cents

2 Changes in accounting policies *(continued)*

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

(iv) *Effect on net income recognized directly in equity for the six months ended 30 June 2005 and 30 June 2004*

The following table sets out adjustments that have been made to the net income recognized directly in equity for the six months period ended 30 June 2005 and 2004. As retrospective adjustment has not been made for the changes in policies, as explained in note 2(e), the amounts shown for the six months period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

		Six months ended 30 June	
	<i>Note</i>	2005	2004
		\$'000	\$'000
Effect of new policy (increase/(decrease))			
<i>HKAS 39</i>			
Interest in property development			
— effect on fair value reserve	2(e)(ii)	175,641	—
<i>HKAS 40</i>			
Investment properties			
— effect on investment property revaluation reserve	2(b)	(143,436)	(40,543)
Total effect for the period		32,205	(40,543)

2 Changes in accounting policies *(continued)*

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

(v) Effect on total equity as at 30 June 2005 and 31 December 2004

The following table summarizes effect of adjustments in note 2(a)(i) to 2(a)(iv) on total equity as at 30 June 2005 and 31 December 2004.

	<i>Note</i>	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Effect of new policy (increase/(decrease))			
<i>HKAS 17</i>			
Leasehold land held for development for sale	2(d)	(666)	(561)
<i>HKAS 39</i>			
Derivative financial instruments	2(e)(i)	8,822	—
Interest in property development	2(e)(ii)	348,484	—
<i>HKAS 40</i>			
Investment properties, net of deferred tax	2(b)	(382,233)	(357,131)
Total effect		(25,593)	(357,692)

2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

As a result of this new policy, the Group's profit before taxation for the six months ended 30 June 2005 has increased by \$143,435,752 (six months ended 30 June 2004: \$40,542,173), being the net increase in the fair value of the Group's investment properties.

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

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognized on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties, no deferred tax was provided in prior years.

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

2 Changes in accounting policies *(continued)*

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

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

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

As a result of this new policy, the Group's taxation expense for the six months ended 30 June 2005 has increased by \$25,101,257 (six months ended 30 June 2004: \$7,094,880).

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were included under fixed assets and stated at cost less accumulated depreciation and impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be split reliably between land and buildings, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between land and buildings elements can be made reliably, the leasehold land are reclassified to leasehold land held for own use under operating lease, which are carried at cost and amortized on a straight-line basis over the lease term whereas the leasehold buildings are stated at cost less accumulated depreciation and impairment losses.

The new accounting policy has been adopted retrospectively with the balances of leasehold land reclassified from fixed assets to leasehold land held for own use under operating lease. Apart from this presentational change with comparatives restated, there is no material effect on the interim financial report.

2 Changes in accounting policies *(continued)*

(d) Leasehold land held for development for sale (HKAS 17, Leases)

In prior years, leasehold land held for development for sale was stated at cost less impairment losses and no amortization is provided.

With the adoption of HKAS 17 as from 1 January 2005, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortized on a straight-line basis over the lease term. If the property is in the course of development or re-development, the amortization charge is included as part of the costs of the property under development. In all other cases, the amortization charge for the period is recognized in the income statement immediately.

The new accounting policy has been adopted retrospectively, with the opening balance of retained earnings and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 2(a) and the consolidated statement of changes in equity.

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

(i) Derivatives and hedging

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

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

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

2 Changes in accounting policies *(continued)*

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

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

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

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

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

As a result of this new policy, net income recognized in equity for the six months ended 30 June 2005 has increased by \$175,641,499.

(f) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

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

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

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

3 Segment information

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

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

(a) Business segments

	Six months ended 30 June 2005				
	Consolidated \$'000	Property investment \$'000	Property development \$'000	Financing and investments \$'000	Others \$'000
Turnover	483,940	99,142	217,308	157,612	9,878
Contribution from operations	228,428	86,628	104,741	37,411	(352)
Fair value changes on investment properties	143,436	143,436	—	—	—
Unallocated group expenses	(13,323)				
Profit from operations	358,541				
Finance costs	(2,480)				
Share of profits less losses of associated companies	4,682	—	—	—	4,682
Profit before taxation	360,743				
Income tax	(60,195)				
Profit after taxation	300,548				

3 Segment information *(continued)*

(a) Business segments *(continued)*

	Consolidated \$'000	Six months ended 30 June 2004 <i>(restated)</i>			Others \$'000
		Property investment \$'000	Property development \$'000	Financing and investments \$'000	
Turnover	381,917	90,461	158,136	130,480	2,840
Contribution from operations	151,342	82,951	42,160	25,738	493
Fair value changes on investment properties	40,543	40,543	—	—	—
Unallocated group expenses	(10,738)				
Profit from operations	181,147				
Finance costs	(5,590)				
Share of profits less losses of associated companies	4,379	—	—	—	4,379
Profit before taxation	179,936				
Income tax	(26,928)				
Profit after taxation	153,008				

(b) Geographical segments

	Group turnover Six months ended 30 June		Group profit from operations Six months ended 30 June	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000 <i>(restated)</i>
Hong Kong	476,626	360,956	352,563	161,250
North America	4,452	18,664	4,362	18,326
Europe	2,240	2,297	1,048	1,571
Others	622	—	568	—
	483,940	381,917	358,541	181,147

4 Profit before taxation

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

(a) Finance costs

	Six months ended 30 June	
	2005 \$'000	2004 \$'000
Interest on bank loans	19,778	10,338
Interest on loan from ultimate holding company	61	788
Less: Interest capitalized (Note)	(16,659)	(4,982)
	3,180	6,144
Less: Interest expense included as other operating expenses	(700)	(554)
	2,480	5,590

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

(b) Other items

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 (restated)
Rentals receivable under operating leases less outgoings	(85,768)	(82,812)
Rental income	(99,142)	(90,461)
Less: Outgoings	13,374	7,649
Amortization expenses	105	105
Amortization of land lease premium	15,340	15,340
Less: Amortization capitalized	(15,235)	(15,235)
Provision for diminution in value of properties held for sale	—	7,276
Provision for bad and doubtful debts and bad debts written off	116	6,220
Income from listed securities	(3,383)	(1,670)
Income from unlisted securities	(5,631)	(19,549)

5 Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2005 \$'000	2004 \$'000 <i>(restated)</i>
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits of the period	34,250	18,883
Underprovision/(Overprovision) in respect of prior years	810	(1,182)
	35,060	17,701
Deferred tax	25,135	9,227
	60,195	26,928

Overseas taxation of the associated companies has been provided for at the applicable tax rates ruling in the respective jurisdictions. Share of taxation attributable to the associated companies for the six months ended 30 June 2005 of \$1,679,945 (six months ended 30 June 2004: \$1,915,168) are included in the consolidated income statement under share of profits less losses of associated companies.

6 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2005 \$'000	2004 \$'000
Interim dividend declared after the interim period of 10 cents (2004: 7 cents) per share	56,677	39,674

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

6 Dividends *(continued)*

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

	Six months ended 30 June	
	2005 \$'000	2004 \$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 25 cents (2004: 22 cents) per share	141,692	124,689

7 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of \$300,509,526 (six months ended 30 June 2004 (restated): \$152,967,497) and number of ordinary shares of 566,767,850 (2004: weighted average number of 558,559,059 ordinary shares) in issue during the period.

No diluted earnings per share for the six months ended 30 June 2004 and 2005 have been presented as the Company has no dilutive potential ordinary shares for the period.

8 Fixed assets

The investment properties of the Group were revalued at 30 June 2005 by Vigers Appraisal and Consulting Limited, an independent firm of professional surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. A revaluation gain of \$143,435,752 (six months ended 30 June 2004: \$40,542,173) and deferred tax thereon of \$25,101,257 (six months ended 30 June 2004: \$7,094,880) have been included in the consolidated income statement.

9 Jointly controlled assets

The aggregate amounts of assets and liabilities recognized in the accounts relating to the Group's interest in the jointly controlled assets were as follows:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Assets		
Property under development	149,289	133,822
Trade and other receivables	156	102
	149,445	133,924
Liabilities		
Bank loans	83,300	69,300
Trade and other payables	4,298	5,711
	87,598	75,011

10 Interest in property development

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

11 Inventories

	At 30 June 2005 \$'000	At 31 December 2004 \$'000 (restated)
Land held for future development	8,834	8,939
Properties under development	2,072,585	1,991,538
Properties held for sale	25,101	124,291
Trading goods	1,291	1,683
	2,107,811	2,126,451

11 Inventories *(continued)*

Included in properties under development is an amount of \$1,369,002,479 (at 31 December 2004: \$1,328,250,578), which represents the Group's interest in the development of a property at 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 2005, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$143 million (at 31 December 2004: \$162 million) of which \$62 million (at 31 December 2004: \$62 million) is payable after one year.

12 Trade and other receivables

The following is an ageing analysis of trade receivables:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Current and overdue within 3 months	106,832	44,480
Overdue between 3 to 6 months	3,446	2,866
Overdue more than 6 months	11,689	12,686
Trade receivables	121,967	60,032
Utility and other deposits	3,751	3,455
Other receivables and prepayments	254,183	145,656
	379,901	209,143

Utility and other deposits of the Group of \$3,304,857 (at 31 December 2004: \$3,358,677) are expected to be recovered after more than one year.

Prepayments of the Group of an amount of \$183,866,000 (at 31 December 2004: \$134,200,000) represent the deposit paid for the acquisition of subsidiaries under an agreement.

Receivables and prepayments of the Group of \$2,068,728 (at 31 December 2004: \$306,498) are expected to be recovered after more than one year.

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

13 Trade and other payables

The following is an ageing analysis of trade payables:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Not yet due or on demand	32,045	29,892
Overdue less than 3 months	5,549	7,715
Overdue between 3 to 6 months	7	14
Overdue more than 6 months	—	20
Trade payables	37,601	37,641
Rental and other deposits	50,838	51,407
Deposits received on sale of properties	—	1,381
Other payables and accrued expenses	135,294	401,541
	223,733	491,970

Rental and other deposits of the Group of \$47,933,508 (at 31 December 2004: \$48,096,776) are expected to be refunded after more than one year.

Other payables of the Group at 31 December 2004 included an amount of \$240,700,000 received from a fellow subsidiary and \$240,000,000 was repaid during the period.

Payables and accrued expenses of the Group of \$6,119,354 (at 31 December 2004: \$1,006,122) 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 fixed terms of repayment. Interest is charged at bank lending rates.

15 Total equity

	Note	Attributable to shareholders of the Company							Minority interests	Total equity
		Share capital	Share premium	Capital reserve	Investment property revaluation reserve	Fair value reserve	Retained profits	Total		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2004										
— as previously reported		48,377	9,971	2,154	1,782,959	(17,736)	1,461,048	3,286,773	1,476	3,288,249
— prior period adjustments in respect of:										
— Leasehold land held for development for sale	2(d)	—	—	—	—	—	(351)	(351)	—	(351)
— Investment properties, net of deferred tax	2(b)	—	—	—	(1,782,959)	—	1,470,942	(312,017)	—	(312,017)
— as restated		48,377	9,971	2,154	—	(17,736)	2,931,639	2,974,405	1,476	2,975,881
Dividends approved in respect of the previous year	6(b)	—	—	—	—	—	(124,689)	(124,689)	—	(124,689)
Issue of shares		8,300	—	—	—	—	—	8,300	—	8,300
Premium on issue of shares		—	560,250	—	—	—	—	560,250	—	560,250
Expenses on issue of shares		—	(12,305)	—	—	—	—	(12,305)	—	(12,305)
Profit for the period (as restated)		—	—	—	—	—	152,967	152,967	41	153,008
At 30 June 2004 (as restated)		56,677	557,916	2,154	—	(17,736)	2,959,917	3,558,928	1,517	3,560,445
At 1 July 2004 (as restated)		56,677	557,916	2,154	—	(17,736)	2,959,917	3,558,928	1,517	3,560,445
Changes of fair value of equity securities available-for-sale		—	—	—	—	14,218	—	14,218	—	14,218
Profit for the period (as restated)		—	—	—	—	—	362,597	362,597	(309)	362,288
Dividends declared in respect of the current year	6(a)	—	—	—	—	—	(39,674)	(39,674)	—	(39,674)
At 31 December 2004 (as restated)		56,677	557,916	2,154	—	(3,518)	3,282,840	3,896,069	1,208	3,897,277

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

15 Total equity (continued)

	Note	Attributable to shareholders of the Company								
		Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Investment property revaluation reserve \$'000	Fair value reserve \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
At 1 January 2005										
— as previously reported		56,677	557,916	2,154	2,040,751	(3,518)	1,599,781	4,253,761	1,208	4,254,969
— prior period adjustments in respect of:										
— Leasehold land held for development for sale	2(d)	—	—	—	—	—	(561)	(561)	—	(561)
— Investment properties, net of deferred tax	2(b)	—	—	—	(2,040,751)	—	1,683,620	(357,131)	—	(357,131)
— as restated, before opening balance adjustment		56,677	557,916	2,154	—	(3,518)	3,282,840	3,896,069	1,208	3,897,277
— opening balance adjustment in respect of interest in property development	2(e)(ii)	—	—	—	—	—	172,842	172,842	—	172,842
— as restated, after opening balance adjustment		56,677	557,916	2,154	—	(3,518)	3,455,682	4,068,911	1,208	4,070,119
Dividends approved in respect of the previous year	6(b)	—	—	—	—	—	(141,692)	(141,692)	—	(141,692)
Changes in fair value of equity securities available-for-sale		—	—	—	—	(5,726)	—	(5,726)	—	(5,726)
Changes in fair value of interest in property development	2(e)(ii)	—	—	—	—	175,641	—	175,641	—	175,641
Profit for the period		—	—	—	—	—	300,510	300,510	38	300,548
At 30 June 2005		56,677	557,916	2,154	—	166,397	3,614,500	4,397,644	1,246	4,398,890

16 Commitments

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

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Contracted for		
— investment properties	5,474	24,756
— properties under development	553,835	610,470
— investments in securities	45,547	86,984
— acquisition of subsidiaries	182,914	—
— acquisition of land	124,500	—
	912,270	722,210
Authorized but not contracted for		
— properties under development	1,255	4,862

17 Contingent liabilities

At 30 June 2005, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$9,015,000 (at 31 December 2004: \$13,867,000).

18 Pledge of assets

At 30 June 2005, properties of the Group with carrying value of approximately \$4,107,583,000 were pledged to banks under fixed charges to secure banking facilities granted to the Group.

At 31 December 2004, properties and securities of the Group with carrying value of approximately \$3,960,362,000 were pledged to banks under fixed charges to secure banking facilities granted to the Group or as margin for Group's investments in securities.

19 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 11.
- (b) Guarantees in respect of performance bonds provided for certain associated companies were disclosed in note 17.

20 Post balance sheet event

On 1 April 2005, an 85% owned subsidiary of the Company has entered into an agreement to acquire approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited (the "Acquisition") for an aggregate cash consideration of RMB459 million.

The Acquisition was approved by the shareholders of the Company on 20 July 2005 and the completion of the Acquisition is subject to the approval by the relevant regulatory authorities in the People's Republic of China.

Independent Review Report to the Board of Directors of Kowloon Development Company Limited



Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 34.

Respective responsibilities of directors and auditors

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 interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700, *Engagements to review interim financial reports* issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

KPMG
Certified Public Accountants

Hong Kong, 7 September 2005

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 8.5% 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 the code provisions (with the exception of Code Provision C.2 on internal controls which will apply to accounting periods commencing 1 July 2005) 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 2005, except for the following deviations:

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. As such, the roles of chairman and chief executive officer are performed by the same person. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. The Board comprises of experienced and high calibre individuals who meet regularly to discuss issues and make decisions on transactions that are material in nature to the Company. Hence, the operations of the Board ensure the balance of power and authority. The corporate governance principles of the Company emphasise a quality Board and accountability to all shareholders.

Code Provision A.4.1 and A.4.2 (last sentence) —

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

Code A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive Directors of the Company do not have a specific term of appointment. However, in accordance with Article 105(A) of the Articles of Association of the Company, at every annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, who have been longest in office since their last election shall retire from office, provided that no Director holding office as executive chairman or as a managing director shall be subject to retirement by rotation or taken into account in determining the number of Directors to retire. The retiring Directors shall be eligible for re-election.

The Board will ensure the retirement of each Director by rotation at least once every three years in order to comply with the Code Provisions.

Code Provision B.1.1 —

Code B.1.1 requires the establishment of a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The remuneration committee as required under Code Provision B.1.1 was not yet in place during the period under review, but it was established by the Company on 20 July 2005 with terms of reference complying with Code Provision B.1.3.

Code Provision C.3.3 —

Code C.3.3 stipulates that the terms of reference of the audit committee should include at least the duties set out therein.

A set of revised terms of reference for the Audit Committee of the Company incorporated with, among others, the duties set out in Code C.3.3 was approved by the Board on 20 July 2005.

Compliance with the Model Code for Securities Transactions by Directors

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.

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 2005.

Directors' Interests and Short Positions

As at 30 June 2005, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares of the Company as recorded in the register required to be kept under Part XV (s.352) of the Securities and Futures Ordinance ("SFO"):

Shares of HK\$0.10 each in the capital of the Company				
Name of Director	Long position	Short position	Percentage of total issued shares	Note
Or Wai Sheun	353,023,083	—	62.29%	1
Ng Chi Man	352,838,083	—	62.25%	2
Tam Hee Chung	750,000	—	0.13%	3
Lai Ka Fai	282,000	—	0.05%	4
Lok Kung Chin, Hardy	200,000	—	0.04%	5
Keith Alan Holman	140,000	—	0.02%	4
Yeung Kwok Kwong	100,000	—	0.02%	4

Notes:

- Mr Or Wai Sheun was deemed to be interested in 352,838,083 shares ultimately wholly-owned by a discretionary family trust of which Mr Or is the founder and a beneficiary. These shares were the shares disclosed under the section of Ms Ng Chi Man in the above table and in the Note of the section on "Interests of Substantial Shareholders and Other Persons".

Mr Or Wai Sheun was deemed to be interested in 185,000 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 352,838,083 shares as a beneficiary of the discretionary family trust referred to in Note 1 above.
- Mr Tam Hee Chung was the beneficial owner of 250,000 shares and 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 by the respective Directors in their capacity as beneficial owner.
- Mr Lok Kung Chin, Hardy was taken to be interested in 200,000 shares owned by a discretionary trust of which Mr Lok is the founder.

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 (within the meaning of Part XV of the SFO) 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. None of the Directors (including their spouses and children under the age of 18) had, as at 30 June 2005, 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 2005, the interests and short positions of persons, other than Directors in the shares and underlying shares of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO were as follows:

Shares of HK\$0.10 each in the capital of the Company			
Name of Shareholder	Long position	Short position	Percentage of total issued shares
HSBC International Trustee Limited	354,074,433	—	62.47%
The Or Family Trustee Limited Inc	352,838,083	—	62.25%

Note:

Of the 354,074,433 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 352,838,083 shares were the shares held by The Or Family Trustee Limited Inc as trustee disclosed in the above table and referred to in Note 1 of the section on "Directors' Interests and Short Positions".

Human Resources

As at 30 June 2005, the Group (excluding associates) employed a total of 197 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, 19 October 2005 to Friday, 21 October 2005. To qualify for the 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 Rooms 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 18 October 2005.

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

Non-executive Directors:

Keith Alan Holman, *Deputy Chairman*

Tam Hee Chung

Yeung Kwok Kwong

Independent Non-executive Directors:

Chau Cham Son

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Seto Gin Chung, John

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

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

Auditors

KPMG

Registrars

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Stock Code

The Hong Kong Stock Exchange: 34