九龍建業有限公司

KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

Announcement of results for the year ended 31 December 2005

HIGHLIGHTS

- Group's 2005 net profit rises to HK$1,059 million; excluding property revaluations net of deferred tax, underlying net profit increases 111% to HK$638 million.
- Excluding revaluation effects, underlying earnings per share for 2005 amount to HK$1.13, an increase of 109% over 2004.
- The 5-year earnings target (earnings per share to grow at 20% per year in 2004-2008) set at the start of 2004 has been accomplished in two years.
- Robust earnings growth is expected in 2006 and 2007.

Financial Highlights

For the year ended 31 December HK$ million	**2005**	2004	2003	2002	**2002-2005 Average Change**
Turnover	**1,320**	773	674	591	
% year-on-year	***71%***	*15%*	*14%*		***33%***
Profit attributable to shareholders	**1,059**	516	152	199	
— Net profit excluding revaluations	**638**	303	201	156	
% year-on-year	***111%***	*51%*	*29%*		***64%***
Earnings per share ("EPS") ***(HK$)***	**1.87**	0.92	0.32	0.41	
— EPS excluding revaluations	**1.13**	0.54	0.42	0.32	
% year-on-year	***109%***	*29%*	*31%*		***56%***
Dividends ***(HK$)***	**0.45**	0.32	0.28	0.25	
% year-on-year	***41%***	*14%*	*12%*		***22%***
— Interim	**0.10**	0.07	0.06	0.05	
— Final	**0.35**	0.25	0.22	0.20	

GROUP RESULTS AND DIVIDENDS

The Group's profit attributable to shareholders for the year ended 31 December 2005 amounted to HK$1,059 million. Excluding investment property revaluation gains net of deferred tax of HK$421 million, underlying net profit rose 111% to HK$638 million. Underlying earnings per share rose to HK$1.13, representing an increase of 109% over 2004.

It should be noted that a number of new accounting standards which became effective on 1 January 2005 require restatement in the accounts of the Group's previously reported results.

The Board of Directors has recommended the payment of a final dividend of HK$0.35 per share for 2005, an increase of 40% over 2004. Together with the interim dividend of HK$0.10, the full year dividend for 2005 will amount to HK$0.45 per share, representing an increase of 41% over the previous year.

The final dividend will be payable on 9 May 2006 to shareholders registered as at 8 May 2006.

BUSINESS REVIEW

The record net profit achieved in 2005 has come from a broad-based improvement across our core property business which has benefited from strong economic growth and favourable sentiment in the property markets in Hong Kong and Macau. The main contributions to the Group's 2005 profit were two residential development projects in Hong Kong and Macau, the sales of which produced a combined profit of HK$401 million. Other Group's businesses have also performed well.

The Group provided investors with the opportunities to participate in the economies of Hong Kong, Macau, and increasingly the People's Republic of China ("PRC"). To further expand to Macau and the PRC, two major acquisitions were made in 2005.

In April 2005, through an 85% owned subsidiary, the Group entered into an agreement to acquire a 70.3% stake in Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") for a cash consideration of RMB459 million. 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 PRC. The acquisition of Shenzhen Properties was approved by the shareholders of the Company at an extraordinary general meeting on 20 July 2005. Subsequently, the Group made a share segregation proposal to the A-share shareholders of Shenzhen Properties in accordance with the relevant reform initiated by the China Securities Regulatory Commission ("CSRC"). The proposal was approved by the A-share shareholders of Shenzhen Properties on 13 January 2006. The Group will hold an effective 59.76% stake in Shenzhen Properties if the CSRC approves its general offer waiver application. If its waiver application is not granted, the Group may have to initiate a general offer to the A-share and B-share shareholders. Details of the acquisition has been stated in a circular issued by the Company on 30 June 2005.

In October 2005, the Company entered into an agreement to acquire an aggregate interest of approximately 56.84% in the existing issued shares of Polytec Asset Holdings Limited ("Polytec Asset") and all the outstanding partly paid non-voting convertible redeemable preference shares ("CPS") of Polytec Asset for a total consideration of HK$826 million. Polytec Asset is a property investment, development and trading company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 208) and the majority of its property development and investment portfolio is in Macau. The whole acquisition process was completed on 24 November 2005. Assuming full conversion of the CPS, the Group has an effective interest of Polytec Asset of 64.15%. As we only completed the whole acquisition process of Polytec Asset in late November, its contribution to the Group's 2005 profit was negligible. The full impact of the Polytec Asset acquisition will be reflected in the Group's 2006 accounts.

The Group's property sales rose to HK$531 million in 2005, an increase of 80% over 2004. The substantial increase in sales was primarily due to the recognition of a portion of the cash distribution from the Group's 80% interest in La Baie Du Noble, a residential and commercial property development project in Macau, and the sale of a majority of the 68 residential units of Padek Palace at No.377 Prince Edward Road West in Hong Kong.

La Baie Du Noble, covering an aggregate gross floor area of approximately 1,603,000 sq ft, is close to completion. It has been well received by the market since the launch of the pre-sale. Except for those duplex apartments, nearly all residential units have been sold. This is one of the most prestigious residential and commercial properties in Macau and its contemporary designs and superior finishes have set new high standards for residential developments in the town. We intend to release the duplex units to the market in the second half of this year.

The residential project at No.33 Ka Wai Man Road, named as Mount Davis 33, is near completion. This luxury residential property is located above the western seashore of Hong Kong Island and is a joint-venture residential development project with Urban Renewal Authority. It offers a total of 89 units, with a gross floor area of approximately 78,000 sq ft and a high quality private clubhouse. We will release some units to the market shortly. With a limited supply of quality residential units on Hong Kong Island, we expect this project to be well received by the market.

The Group's development at 31 Robinson Road, Mid-Levels, Hong Kong, of 84 luxury residential units with a gross floor area of approximately 128,000 sq ft, is expected to be completed in 2007.

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 2,163,000 sq ft, is currently under site formation works. The newly revised development plan has been approved by the Town Planning Board.

During 2005, the Group acquired certain properties, with a total gross floor area of approximately 60,000 sq ft, at Belcher's Street on Hong Kong Island. These properties will be redeveloped in the near future.

The Group's gross rental income for 2005 from its property investment portfolio amounted to HK$212 million. Excluding a one-off termination fee from a retail tenancy in 2004, the underlying gross rental income rose 17% in 2005 over the previous year. The improvement was broad-based, with the underlying rental income from office and retail properties rising 20% and 19% respectively.

The Group has reached an agreement with MTR Corporation to construct a subway connecting the MTR Prince Edward Station and the basement of Pioneer Centre and the project will commence soon. After completion, it will provide greater convenience to visitors and people living in the vicinity.

Property Development

The status of our existing projects under development is shown below.

Group's* Major Projects Under Development

Location	Usage	Group's Interest	Approximate Total Gross Floor Area	Status	Expected Date of Completion
		(%)	*(sq ft)*		
Macau					
La Baie Du Noble The Orient Pearl District Macau	Residential and Commercial	80	1,603,000	Superstructure works in progress	First half 2006
Hong Kong					
Mount Davis 33 No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	Joint Venture with Urban Renewal Authority	78,000	Superstructure works in progress	First half 2006
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	128,000	Superstructure works in progress	2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Residential and Commercial	100	2,163,000	Site formation works in progress	2008/2009
Total			**3,972,000**		

*Note: * Excluding those of Polytec Asset's*

La Baie Du Noble, Orient Pearl District, Macau

An 80% interest in this luxury residential and commercial property development project was acquired by the Group in 2004. The development, comprising five residential blocks erected over a 3-storey commercial podium, commands a panoramic sea view.

Mount Davis 33, 33 Ka Wai Man Road, Kennedy Town, Hong Kong

Situated at the Western Mid-levels, this joint-venture project with Urban Renewal Authority offers top-quality residential units with full clubhouse facilities and a lush landscaped environment. At Mount Davis 33, every unit owns a panoramic seaview balcony, overlooking a magnificent view of Tsim Sha Tsui and Tsing Ma Bridge. This property project has achieved the provisional rating of Platinum Standard of The Hong Kong Building Environmental Assessment Method (HK-BEAM) Society, which assesses new building premises for their environmental protection and user-oriented design.

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

The site will be built up into a comprehensive residential and commercial complex with retail and community facilities.

Property Investment

The Group's existing investment properties, excluding that of our newly acquired subsidiary Polytec Asset, amounted to an aggregate gross floor area of 649,000 sq ft as at 31 December 2005, with 44% and 54% in office and retail space respectively.

The Group's 2005 gross rental income generated by its property investment portfolio amounted to HK$212 million compared to the previous year rental income of HK$181 million, excluding a one-off termination fee of HK$26 million from a major retail tenancy. Indeed, improvement in the local economy and consumer sentiment in 2005 has boosted the overall demand for Grade A office and retail space.

The Group's rental income from its office portfolio rose to HK$53 million in 2005 from HK$44 million in the previous year. This was largely due to a substantial increase in renewal rates for major office tenancies at Pioneer Center, with total rental from offices rising 21% in 2005 from the previous year. Indeed, offices at the Pioneer Centre were close to fully let at the end of 2005 compared to an average occupancy rate of 96.7% in 2004.

The Group's total rental income from its retail property portfolio rose to HK$143 million in 2005 from the previous year's HK$120 million which excludes the previously mentioned termination fee. Total retail rental income from Pioneer Centre, the Group's flagship commercial property, amounted to HK$112 million in 2005.

Property Management

The Group and its associated companies together manage over 8.5 million sq ft of residential and commercial premises as at the end of 2005 compared to 7.7 million in the previous year.

Financing and Investments

The 2005 performance of our mortgage financing and investment business was encouraging. As at 31 December 2005, the Group invested a total of HK$308 million in financial investments, of which HK$65 million was in long term investment and HK$243 million in short term investment. For the year ended 31 December 2005, financing and investment activities combined contributed HK$124 million to the Group's operating profits, an increase of 58% over the previous year.

Polytec Asset Holdings Limited *(56.84% owned by the Group)*

For the year ended 31 December 2005, Polytec Asset's net profit amounted to HK$477 million. Excluding property revaluations net of deferred tax, underlying net profit rose to HK$57 million in 2005, an increase of 234% over the previous 13 months. The increase in profit was mainly driven by the sale of certain properties at China Plaza during the year. Polytec Asset contributed a total of HK$5.5 million to the Group's 2005 profit as the company was only acquired in November 2005.

Property Development: In Macau, Polytec Asset's 58% owned residential and commercial project in Taipa has been under site formation works since the beginning of February this year. This residential and commercial complex, covering an aggregate gross floor area of approximately 386,000 sq ft, includes two buildings with a total of 294 residential units and a number of retail shops on the ground floor. It has received encouraging enquiries regarding this project from potential buyers.

In Hong Kong, Polytec Asset has two small-scale joint-venture residential projects under development. The first one is a 60% owned joint-venture project, situated in Shun Fung Wai, Tuen Mun, comprising of 15 low-rise houses with an aggregate gross floor area of approximately 31,000 sq ft. The second one is a 48% owned joint-venture project, located in Kau To Shan, Shatin, consisting of 6 low-rise houses with an aggregate gross floor area of approximately 13,000 sq ft. The construction works of the two development projects are progressing smoothly and they are expected to be put on sale after their completion this year.

Polytec Asset's Projects Under Development

Location	Usage	Group's Interest	Approximate Total Gross Floor Area	Status	Expected Date of Completion
		(%)	*(sq ft)*		
Macau					
Pacifica Garden The Taipa District Macau	Residential and Commercial	33	386,000	Site formation works in progress	2008
Hong Kong					
Tuen Mun New Territories Hong Kong	Residential	34	31,000	Superstructure works in progress	2006
Kau To Shan Shatin New Territories Hong Kong	Residential	27	13,000	Superstructure works in progress	2006
Total			**430,000**		

Property Investment: The renovation program of the retail portion of Macau Square, Polytec Asset's 50% owned commercial property situated at Av. Do Infante D. Henrique in Macau with total retail space covering gross floor area of approximately 90,000 sq ft, has just been completed. It has received an increasing number of enquiries regarding the retail space from potential tenants. The renovation of the office portion, covering gross floor area of approximately 303,000 sq ft, will be commenced soon and the soft marketing has been launched. This commercial property is expected to become one of the main sources of Polytec Asset's rental income in 2007 and beyond.

The renovation work of Va Iong, a commercial building which is situated at Praca da Amizade with an aggregate gross floor area of 20,000 sq ft, will be started soon and is expected to be completed in the second half of this year.

Other Businesses

Other businesses had made relatively insignificant contributions to the Group's profit in 2005. Among our other businesses, a 20% owned footwear wholesale and retail business of an associated company, Southern Success Corporation, continued to perform well. This associated company has distributed a total dividend of HK$2.2 million to the Group for 2005.

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2005 amounted to HK$2,642 million including HK$88 million from Polytec Asset. This represents an increase of HK$890 million from HK$1,752 million recorded at the end of 2004. The gearing ratio, calculated on the basis of bank borrowings to equity attributable to shareholders of the Company was 52%. During the year under review, the Group 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. Of the HK$826 million acquisition cost for a 56.84% interest in Polytec Asset, HK$685 million has been paid with HK$141 million remained payable to the major shareholder as at 31 December 2005. Substantial amount of cash has been generated from the Group's development projects in 2005, with HK$460 million contributed from La Baie Du Noble in Macau and HK$263 million from Padek Palace in Hong Kong.

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

The Chinese currency reform in mid-2005 has increased the Group's outstanding obligation (50% of RMB459 million) in respect of the proposed acquisition of Shenzhen Properties by approximately HK$3 million. The Group's exposure to other currency risk is insignificant as most of the Group's operations are in Hong Kong and transactions are denominated in local currency.

With committed undrawn financing facilities in place, recurrent cash inflow from investment properties and property sales, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Capital Commitments

As at 31 December 2005, the Group had contracted commitments of HK$222 million in respect of the acquisition of Shenzhen Properties. Commitments for construction work amounted to HK$97 million.

Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK$8 million to insurance companies in respect of performance bonds entered into by associated companies engaged in property management services.

As at 31 December 2005, properties and securities valued at HK$4,983 million and time deposits of HK$38 million were pledged to banks to secure credit facilities, and as margin deposits for the Group's investments in securities.

PROSPECTS

The Group has capitalized on the experience of the new management in property business and a series of development projects injected by the parent company since the takeover by the Polytec Groups in early 2002. As a result, the Group's net profit, excluding revaluation gains, has grown at an annual rate of 60%, with underlying net profit rising from HK$156 million in 2002 to HK$638 million in 2005.

At the start of 2004, we set a 5-year earnings target for the Group, aiming to deliver an annual growth rate of 20% in earnings per share during the period of 2004-2008 or 149% over the period. We have accomplished the goal in two years rather than five, with underlying earnings per share growing 169% over the period.

Looking forward, while we have achieved our 5-year goal much earlier than we had targeted, barring unforeseen circumstances, we are confident that the Group's earnings will continue to grow at a robust rate in 2006 and 2007.

Assuming completion of the acquisition of a controlling stake in Shenzhen Properties, which is still pending final approval from the CSRC, the Group will pursue a three-tier development strategy, with an exposure in the three markets of the Greater China region. Polytec Asset will become the Group's property development and investment flagship in the Macau market while Shenzhen Properties will become the property investment and development platform of the Group in the Mainland China. The Company will continue to concentrate on its activities in Hong Kong and as a holding company for the Group's interests in Macau and China. This will allow the three listed companies of the Group to maintain strategic focus on their respective markets and set a platform for the Group to readily access the best investment opportunities in three markets, providing greater investment flexibility.

Management will continue to focus on ensuring the Group maintains dynamic earnings growth in the long term, thus delivering the best return to our shareholders.

OTHER INFORMATION

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2005, 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 (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 ("Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting year ended 31 December 2005, save for the few 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.

There is no separation between the roles of chairman and chief executive officer. The Board considers that this structure is beneficial to the Company. Please refer to the Company's 2005 interim report for details.

Code Provision A.4.1 and A.4.2 —

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

Code A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

A special resolution to replace the existing Article 105(A) in the Company's Articles of Association with a new Article 105(A) is proposed under the notice convening the forthcoming Annual General Meeting to provide that all Directors shall be elected for a term of not more than approximately three years since his last election or re-election expiring at the conclusion of the third annual general meeting of the Company after his election or re-election and shall be eligible for re-election.

Non-executive Directors of the Company do not have a specific term of appointment. However, as Non-executive Directors will be subject to re-election under the new Article 105(A), 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 upheld.

The Company's Articles of Association provide that a Director appointed to fill a casual vacancy shall hold office until the first annual general meeting after his appointment, and shall be subject to re-election by the shareholders. This procedure complies with the requirement of Appendix 3 of the Listing Rules.

Code Provision B.1.1, C.3.3 —

As reported in the Company's 2005 interim report, the remuneration committee as required under Code B.1.1 was established on 20 July 2005 and the terms of reference of the Audit Committee were also revised on 20 July 2005 to reflect the duties set out in Code C.3.3.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Closure of Register of Members

The Register of Members of the Company will be closed from Friday, 28 April 2006 to Monday, 8 May 2006, 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 Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 27 April 2006.

Consolidated Income Statement

The audited consolidated results of the Group for the year ended 31 December 2005, together with the comparative figures of 2004 are as follows:

	Note	2005 HK$'000	2004 HK$'000 (restated)
Turnover	*3*	**1,320,301**	773,425
Other revenue		**5,475**	6,518
Depreciation and amortization		**(1,304)**	(679)
Staff costs		**(51,845)**	(37,824)
Cost of inventories		**(567,785)**	(350,419)
Fair value changes on investment properties		**505,818**	257,792
Other operating expenses		**(28,955)**	(56,983)
Profit from operations	*3*	**1,181,705**	591,830
Finance costs		**(17,694)**	(6,169)
Share of profits of associated companies		**10,542**	9,554
Share of profits of jointly controlled entities		**7,331**	—
Negative goodwill on acquisition of subsidiaries		**26,482**	—
Profit before taxation		**1,208,366**	595,215
Income tax	*4*	**(144,962)**	(79,919)
Profit for the year		**1,063,404**	515,296
Attributable to:			
Shareholders of the Company		**1,059,153**	515,564
Minority interests		**4,251**	(268)
Profit for the year		**1,063,404**	515,296
Earnings per share — Basic	*5*	**HK$1.87**	HK$0.92
Dividend per share	*6*	**HK$0.45**	HK$0.32

Consolidated balance sheet

at 31 December 2005

	Note		2005		2004
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
					(restated)
Non-current assets					
Fixed assets					
— Investment properties			**4,147,630**		3,461,940
— Leasehold land held for own use			**265,553**		2,060
— Other property, plant and equipment			**39,503**		2,563
			4,452,686		3,466,563
Goodwill			**16,994**		—
Interest in jointly controlled entities			**394,507**		—
Interest in associated companies			**56,568**		46,026
Investments in securities			**65,220**		110,099
Loans and advances			**55,320**		60,158
Deferred tax assets			**9,303**		3,223
			5,050,598		3,686,069
Current assets					
Interest in property development		**575,298**		400,000	
Inventories		**3,194,826**		2,126,450	
Trade and other receivables	*7*	**320,440**		209,143	
Loans and advances		**63,523**		84,834	
Amounts due from jointly controlled entities		**247,192**		—	
Amount due from an associated company		**207**		83	
Derivative financial instruments		**25,811**		—	
Investments in securities		**242,445**		129,251	
Time deposit (pledged)		**38,205**		—	
Cash and cash equivalents		**104,706**		44,497	
		4,812,653		2,994,258	
Current liabilities					
Trade and other payables	*8*	**338,804**		554,233	
Amount due to a major shareholder		**140,791**		—	
Amounts due to minority shareholders		**31,924**		—	
Derivative financial instruments		**7,741**		—	
Bank loans		**978,413**		665,442	
Current taxation		**44,814**		24,677	
		1,542,487		1,244,352	
Net current assets			**3,270,166**		1,749,906

Total assets less current liabilities		**8,320,764**		5,435,975
Non-current liabilities				
Loan from ultimate holding company	**2,635**		7,519	
Bank loans	**1,663,600**		1,086,987	
Deferred tax liabilities	**667,940**		444,192	
		2,334,175		1,538,698
NET ASSETS		**5,986,589**		3,897,277
CAPITAL AND RESERVES				
Share capital		**56,677**		56,677
Reserves		**5,040,735**		3,839,392
Total equity attributable to shareholders of the Company		**5,097,412**		3,896,069
Minority interests		**889,177**		1,208
TOTAL EQUITY		**5,986,589**		3,897,277

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 ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, 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.

2. Changes in accounting policies

The accounting policies used in the preparation of the consolidated accounts are consistent with those set out in the Annual Report 2004, except that the Group has changed certain of its accounting policies following its adoption of new HKFRSs. The adopted new HKFRSs that are of significant difference from the accounting policies set out in the Annual Report 2004 are discussed below, with comparative figures for 2004 amended in accordance with the relevant requirements:

(a) 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 HK$2,040,751,066 (1 January 2004: HK$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 year ended 31 December 2005 has increased by HK$505,818,287 (2004: HK$257,791,596), being the net increase in the fair value of the Group's investment properties.

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

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

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

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

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

As a result of this new policy, the Group's taxation expense for the year ended 31 December 2005 has increased by HK$88,518,200 (2004: HK$45,113,529).

(b) Leasehold land (HKAS 17, Leases)

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

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

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

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

(i) Derivatives and hedging

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

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

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

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

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

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

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

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

(d) Amortization of negative goodwill (HKFRS 3, Business combinations)

In prior periods:

— Negative goodwill which arose prior to 1 January 2001 was taken directly to reserve at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and

— Negative goodwill which arose on or after 1 January 2001 was amortized over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the income statement as those expected losses were incurred.

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

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

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

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

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

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

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

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

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

(f) Effect of changes in accounting policies

(i) Profit attributable to shareholders of the Company

	2005	2004
	HK$'000	*HK$'000*
Effect of new policy (increase/(decrease))		
HKAS 17		
Leasehold land	**—**	(210)
HKAS 39		
Derivative financial instruments	**13,141**	—
HKAS 40		
Investment properties, net of deferred tax	**417,300**	212,678
Interest in jointly controlled entities	**4,244**	—
HKFRS 3		
Negative goodwill	**26,482**	—
Total effect for the year	**461,167**	212,468
Effect on earnings per share		
— basic	**HK$0.81**	HK$0.38

(ii) Equity attributable to shareholders of the Company

	2005	2004
	HK$'000	*HK$'000*
Effect of new policy (increase/(decrease))		
HKAS 17		
Leasehold land	**(561)**	(561)
HKAS 39		
Derivative financial instruments	**13,141**	—
Interest in property development	**635,298**	—
HKAS 40		
Investment properties, net of deferred tax	**(445,650)**	(357,131)
Interest in jointly controlled entities	**4,244**	—
HKFRS 3		
Negative goodwill	**26,482**	—
Total effect for the year	**232,954**	(357,692)

3. Segment information

(a) Business segments

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

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

(b) Geographical segments

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

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

4. Income tax

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

5. Earnings per share

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

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

6. Dividends

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

7. Trade and other receivables

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

	2005 HK$'000	2004 HK$'000
0 — 90 days	**54,498**	44,480
91 — 180 days	**1,614**	2,866
Over 180 days	**9,466**	12,686
	65,578	60,032

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.

8. Trade and other payables

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

	2005 HK$'000	2004 HK$'000
Not yet due or on demand	**46,612**	29,892
0 — 90 days	**20,047**	7,715
91 — 180 days	**137**	14
Over 180 days	**52**	20
	66,848	37,641

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

Hong Kong, 30 March 2006

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 four Independent Non-executive Directors, Mr. Chau Cham Son, 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.