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九龍建業有限公司 KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

Results Announcement for the year ended 31 December 2008

2008 ANNUAL RESULTS HIGHLIGHTS

- The Group's net loss attributable to shareholders for 2008 is HK\$629 million.
- Underlying net loss for 2008 amounts to HK\$2,582 million due to a one-time heavy loss in its finance and investment activities during the year.
- Full year dividend per share amounts to HK\$0.39.
- The Group's financial investment portfolio reduced from HK\$1,752 million to HK\$236 million and outstanding maximum commitments under forward agreements reduced from HK\$10.1 billion to HK\$0.2 billion at end-2008.
- The Group's core property business is expected to deliver good results in 2009.

GROUP RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2008 were significantly impaired by the effect of the downturn in financial markets on financial investments previously held by the Group. The net loss for 2008 attributable to shareholders was HK\$629 million against a net profit of HK\$1,906 million for 2007. Basic earnings per share of the Group fell from HK\$1.72 to a loss of HK\$0.55.

Excluding revaluation gains on investment properties net of deferred tax and a one-off gain on negative goodwill, resulting from the increase in the Company's shareholding in Polytec Asset Holdings Limited ("Polytec Asset"), the underlying net loss for the year amounted to HK\$2,582 million as compared with the underlying net profit of HK\$1,502 million for 2007.

As indicated above, the reason behind these disappointing results was the heavy losses incurred during the year through the Group's finance and investment activities, as to which the Company made an announcement on 27 October 2008.

Taking into account of the strength of the Group's core property business and the one-off nature of the investment losses made in the year 2008, the Board of Directors recommends the payment of a final dividend of HK\$0.20 per share (2007: HK\$0.48) for the year ended 31 December 2008 to shareholders whose names appear on the Register of Members of the Company on 10 June 2009. The proposed final dividend is expected to be paid on 17 June 2009 if approved at the annual general meeting of the Company. The final dividend together with the interim dividend of HK\$0.19 per share gives a total dividend payment of HK\$0.39 per share (2007: HK\$0.65) for the year.

REVIEW OF MAJOR BUSINESS SEGMENTS

Property Sales and Development

Despite the global financial crisis negatively affecting the global economy in 2008, the Group's core property business has performed well during the year.

Given that the global economy has deteriorated rapidly over the past six months, the Group's sale of a portion of remaining luxury residential units at 31 Robinson Road in the fourth quarter was satisfactory, with total sales proceeds of the project for the year amounting to HK\$497 million achieving an average selling price of over HK\$16,000 per sq ft.

Together with the profit recognition of HK\$507 million from the co-investment development project Villa de Mer in Macau and after netting off an impairment loss of a Hong Kong development project, this segment produced a combined operating profit of HK\$683 million, which accounted for a substantial portion of the Group's operating results for the year.

With respect to the Villa de Mer project, the final distribution has been received subsequent to the balance sheet date which will result in a recognition of further profit for the Group in 2009.

The Group has acquired approximately 120,000 sq m of attributable gross floor area for future development in Hong Kong and Zhongshan at an aggregate cost of HK\$1,671 million during the course of 2008. As at 31 December 2008, the Group owned approximately 4,500,000 sq m of attributable gross floor area, of which approximately 1,100,000 sq m was held for future development and approximately 3,400,000 sq m was under development.

Property Investment

The Group's gross rental income from its investment property portfolio rose to HK\$256 million for the year ended 31 December 2008, an increase of 9.1% over the same period of 2007. The improvement in gross rental income was broad-based, with rental income from office spaces rising 19.3% and retail spaces rising 5.3% for the year. In addition, the overall occupancy rate of the Group's investment properties has remained high throughout the course of 2008, with the average occupancy rate for each property over 90%.

Total income generated from the Group's flagship property, Pioneer Centre, rose to HK\$206 million for 2008, an increase of 10.2% over the corresponding period last year, with both retail and office spaces nearly fully let.

During the year, the Group accepted the provisional basic terms of the proposed land exchange for Ngau Chi Wan project, for which the Company is now expecting an indication of land premium. The revaluation of the commercial portion contributed HK\$594 million to the total revaluation gains on the Group's investment property portfolio. The amount together with revaluation gains on the Group's other investment properties of HK\$285 million gives a total revaluation gains of HK\$879 million (2007: HK\$491 million) for the year.

Finance and Investments

The meltdown on Wall Street and the global financial markets in the fourth quarter last year significantly impaired the financial investment portfolio previously held by the Group.

Following the unexpected collapse of Lehman Brothers Holdings Inc, Management projected that such event could trigger a confidence crisis, which would have significantly impacted on the financial markets and therefore the Group's investment portfolio. Thus in early October last year, the Group took a prompt decision to contain its exposure to uncertainties by liquidating the majority of shares owned in its portfolio and unwinding most of its forward purchase and sale agreements.

As a result, the Group suffered a one-time operating loss of HK\$3,730 million for 2008 in the finance and investment activities compared with an operating profit of HK\$1,046 million in 2007.

As of 31 December 2008, the Group's investment portfolio included only insignificant outstanding derivative contracts, with the maximum commitments of the Group under forward agreements being reduced substantially to HK\$0.2 billion from HK\$10.1 billion at end-2007. Further the total value of financial investments in the Group's portfolio was down to HK\$236 million at end-2008 from HK\$1,752 million at end-2007.

MAJOR DEVELOPMENT PROJECTS

The status of the Group's major development projects in Hong Kong, Mainland China and Macau is as follows:

Hong Kong

No. 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon

This site, with a gross floor area of approximately 196,400 sq m, will be developed into a residential and commercial complex with retail and community facilities. The Company has agreed with the Hong Kong Government on the provisional basic terms of the proposed land exchange and is now expecting an indication of land premium from the Government.

Nos. 150-162, Belcher's Street, Hong Kong

This 564 sq m site will be developed into a gross floor area of approximately 5,600 sq m of multi-storey high-end residential units with retail, club house and car parking spaces included. The building plan has been approved and foundation work is about to commence.

Macpherson Stadium, Kowloon

This is a redevelopment project which was tendered from the Urban Renewal Authority. The project covers a site area of approximately 2,400 sq m with its development content made up of approximately 5,600 sq m of stadium and youth centre together with approximately 16,700 sq m and approximately 2,500 sq m for residential usage and commercial usage respectively. The saleable floor area attributable to the Group is approximately 18,100 sq m. Development work will commence following completion of demolition.

Mainland China

West of Daba Road, Dong Ning District, Shenyang

As the local authorities were unable to deliver certain land lots as agreed before, the intended total gross floor area was reduced from 2,900,000 sq m to approximately 2,200,000 sq m. However, the final total gross floor area figure is still subject to further adjustments. The relocation and resettlement of remaining inhabitants is in progress. The master layout plan for the first phase of the development (which includes low-rise and medium-rise residential blocks with a gross floor area of approximately 150,000 sq m) has been submitted to the local authorities for approval.

Heshun Meijing Shuiku Sector, Nanhai District, Foshan

The first phase of the development project is underway. The residential portion is expected to be completed in the first half of 2010. A soft launch of the first phase of the residential development took place in early 2009 and has been well received by the market. A formal launch of the residential units is scheduled around April-May 2009.

Lot No. Jin Dong Liu 2004-066, Hedong District, Tianjin

The Tianjin development project is located in a prime area of the central business district of Hedong. Site clearance is underway. The project envisages a composite development consisting of residential, office, hotel and retail elements with an aggregate gross floor area of approximately 930,000 sq m.

Xueyuan Road, Zhongshan, Guangdong

The Zhongshan development project, located in Shiqi District, will consist of high-end residential towers and retail spaces, with an aggregate gross floor area of approximately 126,600 sq m.

Macau

The Group's property interest in Macau is held through its listed subsidiary, Polytec Asset, 73.4% owned by the Company. Details of the development projects are as follows:

Villa de Mer, The Orient Pearl District

Villa de Mer, the Group's development project held by Polytec Asset which has an 80% interest under a co-investment agreement, covers a gross floor area of approximately 138,100 sq m and comprises five high-end residential towers with a total of about 1,300 units erected on top of a podium with retail, club house and car parking spaces. Foundation work has been completed. While construction work will only be completed in 2010, a final distribution under the terms of the co-investment agreement was received subsequent to the balance sheet date. As a result, the Company's interest in the project is concluded and that the remaining profits recognized from the final distribution will be booked in the first half of 2009.

Lote P, The Orient Pearl District

Lote P, a development project in which Polytec Asset holds an 80% interest, covers an aggregate site area of approximately 68,000 sq m and will be developed by phases into various multi-storey luxury residential towers, together with a shopping mall and club house and car parking spaces, with an aggregate gross floor area of approximately 699,800 sq m. The layout plan will be submitted to relevant government authorities for approval.

Lotes T & T1, The Orient Pearl District

Lotes T & T1 combined covers an aggregate site area of approximately 17,900 sq m. This project, in which Polytec Asset owns an 80% interest, will be developed into a number of high-end residential blocks and ancillary shops, with an aggregate gross floor area of approximately 187,000 sq m. The building plan was submitted to relevant government authorities for approval.

Pacifica Garden, Taipa

Pacifica Garden is Polytec Asset's 58% owned residential and commercial project in Taipa, with a gross floor area of approximately 35,900 sq m, comprising two buildings with a total of 295 residential units and a number of retail shops on the ground floor. All residential units were sold in 2007. Construction work of the project is expected to be completed in mid-2009.

NEW DEVELOPMENTS AND MAJOR EVENTS IN 2008

Hong Kong and Macau

- (1) The Group's property development and investment activities in Macau is principally operated by Polytec Asset. Its group also engages in ice manufacturing and cold storage business which generated a steady operating profit of HK\$14.8 million (2007: HK\$13.5 million). During the year, the Company acquired on-market an additional 617,940,000 shares in Polytec Asset at total purchase price of HK\$271 million. The Group shared its net loss of HK\$327 million (2007: net profit of HK\$80 million) for the year. The Group also recognized a one-off non-cash gain of HK\$1,206 million as negative goodwill in its consolidated accounts following the acquisition of the additional shares in Polytec Asset. As at the balance sheet date, the Company owned approximately 73.4% of the total issued ordinary shares of Polytec Asset.
- (2) The Group acquired Nos. 468-474, Sai Yeung Choi Street North, Kowloon, Hong Kong with a gross floor area of about 8,400 sq m. The site is designated for residential development.
- (3) In July 2008, the Group entered into an agreement with the Urban Renewal Authority and Hong Kong Playground Association for the redevelopment of a site at the Macpherson Stadium, Mongkok. The saleable floor area attributable to the Group is approximately 18,100 sq m.
- (4) The Group acquired Nos. 59-65A Pokfulam Road, Hong Kong with a gross floor area of about 5,000 sq m. The site is designated for residential development.

Mainland China

- (1) On 23 December 2008, the Company and China Orient Asset Management Corporation agreed to terminate their cooperation in respect of a Sino-foreign joint venture that targeted the acquisition of distressed assets. Details were disclosed in an announcement of the Company dated 23 December 2008. The termination has a positive impact on the cash and gearing position of the Group.
- (2) The Group acquired a 70% interest in a residential and commercial development project in Zhongshan, Guangdong. The total gross floor area of the development is about 126,600 sq m as further described above.

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

As at 31 December 2008, the Group had total bank borrowings of HK\$3,028 million with HK\$1,166 million repayable within one year and HK\$1,862 million repayable beyond one year. The net borrowings position of the Group as at the year end date was HK\$2,061 million after taking into account cash and cash equivalent of HK\$967 million. There was an increase of HK\$1,204 million as compared with the net borrowings of HK\$857 million as at 31 December 2007. Loan from/amount payable to the ultimate holding company amounted to HK\$3,160 million as at year end 2008 (2007: HK\$1,398 million). The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to shareholders of the Company) was 32.6% as at 31 December 2008 as compared with 13.2% at 2007 year-end. The increase in the Group's gearing ratio was attributed mainly to the losses incurred from the finance and investments business, the payment of land premium for the Group's newly acquired Macpherson Stadium project in Mongkok and the additional investments of the Group in Mainland China property projects during the year under review.

During year 2008, the sale of 31 Robinson Road generated a cash inflow of approximately HK\$1,360 million and is expected to contribute positively to the cashflow of the Group in 2009.

All the Group's borrowings are arranged on a floating rate basis. The Group is continuously monitoring and managing its exposure to interest rate fluctuations. When appropriate, the Group will consider engaging relevant hedging arrangements suitable for its financing structure.

With the Group's investments in Mainland China projects, the Group is exposed to exchange fluctuations on Renminbi ("RMB"). The joint venture development in Foshan with CITIC South China (Group) Co Ltd has arranged RMB bank borrowings for its development needs. The Group is currently seeking appropriate RMB borrowings to finance the development commitments for other Mainland China projects in order to hedge against the exchange rate risk associated with RMB. The Group's exposure to other foreign currency is minimal.

With the financing facilities in place, recurrent income from investment properties, property sales from the Group's development projects, cash on hand and the financial support of the ultimate holding company, the Group has sufficient financial resources to satisfy its funding requirements.

Capital Commitments

As at 31 December 2008, the Group had an outstanding commitment of HK\$83 million for the acquisition of a subsidiary engaged in Mainland China property development. In connection to the Group's investment properties, the Group had commitments for construction work to enhance the property value which amounted to HK\$131 million.

Pledge of Assets

As at balance sheet date, properties and financial investments amounted to HK\$6,740 million and time deposits of HK\$19 million were pledged to financial institutions to secure credit facilities and as margin for its financial investments.

Contingent Liabilities

The Group had contingent liabilities in respect of a guarantee for a banking facility extended to a jointly controlled entity in the amount of RMB200 million (equivalent to approximately HK\$227 million). The banking facility was utilized to the extent of RMB120 million (equivalent to approximately HK\$136 million) as at 31 December 2008.

Human Resources

At 31 December 2008, the Group had a total of 362 employees (2007: 367 employees) in its various offices in Hong Kong, Macau and Mainland China. Total staff costs for the year amounted to HK\$77 million (2007: HK\$97 million). The Group's remuneration policy is based on the principle of pay for performance with the aim to attract, motivate and retain talented people.

PROSPECTS

The current global economic slowdown may deepen further as fears are still mounting over economic uncertainties. In short term, the property markets in Hong Kong, Mainland China and Macau will likely remain under downward adjustment pressure. This is a challenging environment but one which provides an opportunity to strengthen the Group's land bank and holding of investment properties at relatively low prices.

In order to face the challenges caused by this economic slowdown, the Group has taken various positive actions to bring its focus back to its core property business. In December 2008, it was mutually agreed with China Orient Asset Management Corporation to terminate the co-operation in respect of a Sino-foreign joint venture. On 2 April 2009, a settlement agreement was entered into with respect to the Shenzhen Properties Resources Development (Group) Limited transaction, which was originally agreed in 2005, involving termination of the proposed acquisition and repayment of sums already paid and payment of certain other sums to the Group.

Management has committed to concentrate its efforts on its property business, aiming to create maximum value for its shareholders through property development and property investment. In respect of finance and investment activities, the Group will take a conservative and prudent approach. Management has been directed to limit the scale of short-term financial investment trading activities and avoid derivative trading. The Group will focus on the medium- and long-term investment opportunities.

Management has also committed to enhance the Group's position in the property markets of Hong Kong, Macau and Mainland China with the aim of becoming one of very few listed companies to have the capability to grow significantly in all three markets.

The Group has adjusted its business strategy. The financial investment portfolio and commitments under forward agreements, that incurred a one-time heavy loss during 2008, was substantially reduced. In 2009, it is expected the finance and investment business will not have a material impact on the Group's overall performance, while the Group's core property business is expected to deliver good results.

The Group's earnings for 2009 will be largely supported by distribution from Villa de Mer in Macau, as well as the sale of remaining luxury residential units at 31 Robinson Road in Hong Kong. From 2010 onwards, the Group's various development projects in Mainland China will start contributing a significant portion to the Group's results.

I am pleased to announce that the recent soft launch of the Group's first Mainland China development project in Foshan (Guangdong Province) has been well received by the market. This is especially encouraging for the Group, broadening our successful experience both in the Hong Kong and Macau property markets.

OTHER INFORMATION

Review by Audit Committee

The Audit Committee of the Company has reviewed the Group's consolidated accounts for the year ended 31 December 2008, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors.

Code on Corporate Governance Practices

During the year, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except for the deviation under code provision A.2.1.

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

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

Closure of Register of Members

The Register of Members of the Company will be closed from 8 June 2009 to 10 June 2009, both dates inclusive. During which period, no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, at 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 5 June 2009.

Annual General Meeting

The forthcoming annual general meeting of the Company will be held at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 10 June 2009 at 11:15 a.m.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2008, together with the comparative figures of 2007 are as follows:

Consolidated income statement

for the year ended 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
Turnover	2	8,792,773	10,384,080
Cost of sales		(8,171,721)	(8,211,550)
Other revenue		41,282	10,430
Other net income/(expenses)	3	34,170	(46,013)
Depreciation and amortization		(10,597)	(10,280)
Staff costs		(76,541)	(97,048)
Other operating expenses		(229,023)	(93,867)
Fair value changes on investment properties	4	878,833	490,922
Unwinding cost for contingent forward transactions	5	(1,614,522)	—
Loss on disposal of available-for-sale investments	6	(1,588,710)	—
(Loss)/Profit from operations	2	(1,944,056)	2,426,674
Finance costs	7	(95,512)	(81,685)
Share of profits of associated companies		206	1,396
Share of profits less losses of jointly controlled entities		(53,455)	11,886
Negative goodwill	8	1,205,914	—
(Loss)/Profit before taxation		(886,903)	2,358,271
Income tax	9	(171,131)	(385,367)
(Loss)/Profit for the year		(1,058,034)	1,972,904
Attributable to:			
Shareholders of the Company		(629,266)	1,906,398
Minority interests		(428,768)	66,506
(Loss)/Profit for the year		(1,058,034)	1,972,904
(Loss)/Earnings per share — Basic/Diluted	10	(HK\$0.55)	HK\$1.72
Dividend per share	11	HK\$0.39	HK\$0.65

Consolidated balance sheet
at 31 December 2008

		2008		2007
	Note	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Fixed assets				
— Investment properties			6,027,990	4,991,830
— Leasehold land held for own use			245,961	252,492
— Other property, plant and equipment			41,725	39,710
			<u>6,315,676</u>	<u>5,284,032</u>
Interests in property development			10,251,062	12,013,954
Interest in jointly controlled entities			1,241,043	1,072,470
Interest in associated companies			7,584	7,378
Financial investments			33,681	148,329
Loans and advances			14,085	27,654
Deferred tax assets			31,711	9,028
			<u>17,894,842</u>	<u>18,562,845</u>
Current assets				
Interests in property development		1,601,329		—
Inventories		5,854,969		4,331,389
Trade and other receivables	12	2,196,512		2,935,869
Loans and advances		42,407		47,708
Amounts due from jointly controlled entities		997,314		608,480
Derivative financial instruments		—		40,335
Financial investments		202,176		1,603,789
Time deposits (pledged)		18,810		582,473
Cash and cash equivalents		967,499		907,961
		<u>11,881,016</u>		<u>11,058,004</u>
Current liabilities				
Trade and other payables	13	2,676,052		1,413,068
Amount due to ultimate holding company		1,380		2,662
Amounts due to minority shareholders		461,158		333,305
Derivative financial instruments		45,526		216,978
Bank loans		1,166,000		623,000
Current taxation		398,870		368,927
		<u>4,748,986</u>		<u>2,957,940</u>
Net current assets			<u>7,132,030</u>	<u>8,100,064</u>
Total assets less current liabilities			<u>25,026,872</u>	<u>26,662,909</u>
Non-current liabilities				
Other payable		—		1,508,000
Loan from ultimate holding company		2,473,789		495,964
Amount payable to ultimate holding company		686,497		902,020
Bank loans		1,862,000		1,141,700
Deferred tax liabilities		900,145		795,941
			<u>5,922,431</u>	<u>4,843,625</u>
NET ASSETS			<u><u>19,104,441</u></u>	<u><u>21,819,284</u></u>

		2008		2007	
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CAPITAL AND RESERVES					
Share capital			115,068		115,068
Reserves			<u>15,899,606</u>		<u>16,992,195</u>
Total equity attributable to the shareholders of the Company			16,014,674		17,107,263
Minority interests			<u>3,089,767</u>		<u>4,712,021</u>
TOTAL EQUITY			<u>19,104,441</u>		<u>21,819,284</u>

1 Basis of preparation

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

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group’s operations.

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

2 Segment information

(a) Business segments

	2008				
	Consolidated <i>HK\$’000</i>	Property development <i>HK\$’000</i>	Property investment <i>HK\$’000</i>	Finance and investments <i>HK\$’000</i>	Others <i>HK\$’000</i>
Turnover	<u>8,792,773</u>	<u>1,031,261</u>	<u>255,596</u>	<u>7,446,119</u>	<u>59,797</u>
Contribution from operations	417,516	682,735	248,622	(526,954)	13,113
Fair value changes on investment properties	878,833	—	878,833	—	—
Unwinding cost for contingent forward transactions	(1,614,522)	—	—	(1,614,522)	—
Loss on disposal of available-for-sale investments	(1,588,710)	—	—	(1,588,710)	—
Unallocated group expenses	<u>(37,173)</u>				
Loss from operations	(1,944,056)				
Finance costs	(95,512)				
Share of profits of associated companies	206	—	—	—	206
Share of profits less losses of jointly controlled entities	(53,455)	(5,269)	(48,186)	—	—
Negative goodwill	<u>1,205,914</u>				
Loss before taxation	(886,903)				
Income tax	<u>(171,131)</u>				
Loss for the year	<u>(1,058,034)</u>				

	2008				
	Consolidated	Property	Property	Finance and	Others
	<i>HK\$'000</i>	<i>development</i>	<i>investment</i>	<i>investments</i>	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment assets	26,313,500	19,673,147	6,034,655	321,765	283,933
Interest in jointly controlled entities	2,238,357	1,676,828	561,529	—	—
Interest in associated companies	7,584	—	—	—	7,584
Unallocated	1,216,417				
Total assets	<u>29,775,858</u>				
Segment liabilities	2,889,879	2,506,847	88,967	276,010	18,055
Unallocated	7,781,538				
Total liabilities	<u>10,671,417</u>				
Capital expenditure incurred during the year	3,633	1,566	1,035	—	1,032
Fair value changes on held for trading listed investments	96,947	—	—	96,947	—
Depreciation and amortization	10,695	—	—	—	10,695
Impairment loss on inventories	179,207	179,207	—	—	—

	2007				
	Consolidated HK\$'000	Property development HK\$'000	Property investment HK\$'000	Finance and investments HK\$'000	Others HK\$'000
Turnover	<u>10,384,080</u>	<u>1,514,777</u>	<u>234,171</u>	<u>8,555,927</u>	<u>79,205</u>
Contribution from operations	2,020,027	721,480	219,844	1,046,271	32,432
Fair value changes on investment properties	490,922	—	490,922	—	—
Unallocated group expenses	<u>(84,275)</u>				
Profit from operations	2,426,674				
Finance costs	(81,685)				
Share of profits of associated companies	1,396	—	—	—	1,396
Share of profits less losses of jointly controlled entities	<u>11,886</u>	<u>(2,887)</u>	<u>14,773</u>	—	—
Profit before taxation	2,358,271				
Income tax	<u>(385,367)</u>				
Profit for the year	<u>1,972,904</u>				
Segment assets	26,658,587	18,890,836	4,999,552	2,474,288	293,911
Interest in jointly controlled entities	1,680,950	1,050,807	630,143	—	—
Interest in associated companies	7,378	—	—	—	7,378
Unallocated	<u>1,273,934</u>				
Total assets	<u>29,620,849</u>				
Segment liabilities	3,066,533	2,511,849	81,391	452,339	20,954
Unallocated	<u>4,735,032</u>				
Total liabilities	<u>7,801,565</u>				
Capital expenditure incurred during the year	6,709	—	6,566	—	143
Fair value changes on derivative financial instruments	196,127	—	—	196,127	—
Depreciation and amortization	10,280	—	—	—	10,280
Impairment loss on inventories	13,531	13,531	—	—	—
Impairment loss on goodwill	<u>16,994</u>				

An asset amount of HK\$225,743,000 (2007: HK\$225,743,000) represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited (“Shenzhen Properties”) and HK\$Nil (2007: HK\$120,000,000) represented the deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties were not allocated to business segments as subsequent to the balance sheet date, an agreement was signed between the Group and the relevant parties to discontinue the acquisition of Shenzhen Properties.

(b) *Geographical segments*

	Group turnover		Group (loss)/profit from operations	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Hong Kong	8,056,266	9,943,948	(2,390,426)	2,201,466
Macau	533,810	369,040	449,989	193,879
Mainland China	12,358	2,821	(2,931)	(12,038)
North America	179,808	52,919	12,516	28,474
Others	10,531	15,352	(13,204)	14,893
	<u>8,792,773</u>	<u>10,384,080</u>	<u>(1,944,056)</u>	<u>2,426,674</u>

	Segment assets		Capital expenditure incurred during the year	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Hong Kong	10,049,977	10,715,497	2,067	6,709
Macau	12,715,890	13,105,358	—	—
Mainland China	3,479,313	2,627,367	1,566	—
North America	33,681	208,417	—	—
Others	34,639	1,948	—	—
	<u>26,313,500</u>	<u>26,658,587</u>	<u>3,633</u>	<u>6,709</u>

3 Other net income/(expenses)

Other net income/(expenses) represents fair value changes on held for trading listed investments of loss HK\$96,947,000 (2007: gain of HK\$150,114,000) and derivative financial instruments of gain HK\$131,117,000 (2007: loss of HK\$196,127,000).

4 Fair value changes on investment properties

During the year, the Group had accepted the provisional basic terms of the proposed land exchange put forth by the Hong Kong Government in respect of a property development in Ngau Chi Wan. The areas of domestic and non-domestic development of the site are governed by the provisional basic terms and it is the Group's intention to hold the non-domestic development for future use as investment properties. In accordance with the Group's accounting policy, the leasehold land under development held to earn long-term rental income is classified as investment properties and is stated at fair value. With the acceptance of the provisional basic terms, the area for the non-domestic development can be ascertained and its fair value can be objectively measured. The non-domestic portion of the land for the Ngau Chi Wan project is transferred from properties under development to investment properties during the year.

5 Unwinding cost for contingent forward transactions

During the year, the Group had outstanding forward agreements to purchase or sell certain listed equity investments at fixed prices over 52-week periods from the dates of the agreements. Because of the global financial turmoil triggered by the sub-prime crisis, investment sentiment and the performance of the world financial and stock markets deteriorated drastically. In order to minimize losses and to reduce risk exposures associated with the outstanding forward agreements, a substantial portion of these agreements were unwound in October 2008. The aggregate costs in respect of the unwinding were approximately HK\$1,615 million and were recognized in the income statement for the year.

6 Loss on disposal of available-for-sale investments

Listed equity investments had been acquired during the current year and prior years for long-term holding purpose and were classified as available-for-sale investments in the accounts. However, due to the unpredictable global financial conditions in the second half of 2008, the Group liquidated all of its listed available-for-sale investments in order to contain its losses and minimize its risk exposure associated with its investment portfolio. The losses on disposal of available-for-sale investments were approximately HK\$1,589 million and was recognized in the income statement for the year.

7 Finance costs

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Interest on bank loans and overdrafts	66,142	99,056
Interest on loan from/amount payable to ultimate holding company	61,054	89,463
Less: Amount capitalized	<u>(31,684)</u>	<u>(106,834)</u>
	<u>95,512</u>	<u>81,685</u>

8 Negative goodwill

During the year, the Group's interest in its listed subsidiary, Polytec Asset Holdings Limited ('Polytec Asset') increased from 59.52% to 73.44% by acquiring an aggregate 617,940,000 shares of Polytec Asset in the market at the prevailing market price, which was at a significant discount to the underlying net asset value. The total consideration for the acquisition was approximately HK\$271 million with average cost of about HK\$0.44 per share. Negative goodwill arises on consolidation represents the excess of the Group's additional interest in the net fair value of Polytec Asset's identifiable assets, liabilities and contingent liabilities, over the cost of the acquisition at the acquisition dates from October to December 2008. Negative goodwill of HK\$1,205,914,000 was recognized during the year in the income statement.

9 Income tax

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Current tax — Hong Kong	88,312	317,880
— Overseas	<u>1,298</u>	<u>11,695</u>
	89,610	329,575
Deferred tax	<u>81,521</u>	<u>55,792</u>
	<u>171,131</u>	<u>385,367</u>

The provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

10 (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of the Company of HK\$629,266,000 (2007: profit of HK\$1,906,398,000) and weighted average number of shares in issue during the year of 1,150,681,275 (2007: 1,108,345,343).

(b) Diluted (loss)/earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2008 and 2007.

11 Dividends

	2008 HK\$'000	2007 HK\$'000
Interim dividend declared and paid of HK\$0.19 (2007: HK\$0.17) per share	218,629	195,616
Final dividend proposed after the balance sheet date of HK\$0.20 (2007: HK\$0.48) per share	230,136	552,327
	<u>448,765</u>	<u>747,943</u>

12 Trade and other receivables

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

	2008 HK\$'000	2007 HK\$'000
Current	188,449	1,331,699
Less than 3 months past due	3,414	20,979
3 months to 6 months past due	624	637
More than 6 months past due	8,597	9,181
Amounts past due	12,635	30,797
Trade receivables	201,084	1,362,496
Utility and other deposits	4,185	4,721
Other receivables and prepayments	1,991,243	1,568,652
	<u>2,196,512</u>	<u>2,935,869</u>

Prepayments of the Group of an amount of HK\$225,743,000 (2007: HK\$225,743,000) which represents the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties and HK\$Nil (2007: HK\$120,000,000) represents deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties. The deposit for general offer of HK\$120,000,000 has been refunded to the Group during the year. Subsequent to the balance sheet date, an agreement was signed between the Group and the relevant parties to discontinue the acquisition of Shenzhen Properties. The amount of the deposit paid for the acquisition of HK\$225,743,000 will be returned from the vendor.

Prepayments of the Group of an amount of approximately HK\$1,700,892,000 (2007: HK\$1,152,406,000) represents payments made for the acquisition of a composite property development site located in Tianjin of the Mainland China.

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.

13 Trade and other payables

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

	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Not yet due or on demand	85,372	487,083
Within 3 months	57,700	35,197
3 months to 6 months	27,624	658
More than 6 months	17,300	272
Trade payables	187,996	523,210
Rental and other deposits	63,994	53,926
Other payables and accrued expenses	1,937,367	416,298
Deposits received on sale of properties	486,695	419,634
	2,676,052	1,413,068

As at 31 December 2008, other payables and accrued expenses of the Group includes an amount of HK\$1,613,516,000 was received from a subsidiary of the ultimate holding company, Polytec Holdings International Limited, in respect of the Group's interests in property development in Macau and is expected to be settled within one year. In 2007, amount of HK\$1,508,000,000 received was recorded under "Other payable" of non-current liabilities.

Publication

The Annual Report containing all the information as required by Appendix 16 of the Listing Rules will be published on the Company's website at www.kdc.com.hk and the website of the Stock Exchange of Hong Kong on or about 29 April 2009.

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

Hong Kong, 7 April 2009

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