



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 2004

HIGHLIGHTS

- Group profit for 2004 increased by HK\$101 million, up 50% to HK\$303 million.
- Earnings per share grew by 29% (outperforming target of 20%) on the weighted average number of 562,685,882 shares in issue during 2004, after accounting for the issue of 83 million new shares in January 2004.

	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	773,425	673,812	591,157
Profit attributable to shareholders	303,096	201,500	155,854
Earnings per share (HK cents)	53.9*	41.7	32.2
Dividend per share (HK cents)	32	28	25

* Earnings per share (EPS) as at 31 December 2004 reflected the placement of 83 million new shares issued in January 2004.

GROUP RESULTS AND DIVIDENDS

The Board of Directors of Kowloon Development Company Limited (the "Company") is pleased to report that profit of the Company and its subsidiaries (the "Group") attributable to shareholders of the Company for the year ended 31 December 2004 was HK\$303 million (2003: HK\$202 million), an increase of 50% over that of 2003. Based on the weighted average number of 562,685,882 shares in issue during the year (2003: 483,767,850 shares), earnings per share rose 29% to 53.9 HK cents (2003: 41.7 HK cents), outperforming the target of delivering an annual earnings growth rate of 20% per share laid down by the Company in January 2004. The net asset value per share at 31 December 2004 was HK\$7.5 (31 December 2003: HK\$6.8).

The Board of Directors recommends the payment of a final dividend of 25 HK cents per share (2003: 22 HK cents per share) which is expected to be paid on 6 May 2005 to shareholders registered as at 5 May 2005 following approval at the Annual General Meeting to be held on 5 May 2005. The final dividend, together with the interim dividend of 7 HK cents per share (2003: 6 HK cents per share) paid on 29 October 2004, gives an aggregate dividend of 32 HK cents per share for 2004 (2003: 28 HK cents per share) and represents an increase of 14% over 2003. Total dividend for 2004 amounts to HK\$181 million which is 18% over last year's figure of HK\$154 million.

The Register of Members of the Company will be closed from Thursday, 28 April 2005 to Thursday, 5 May 2005, 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 Wednesday, 27 April 2005.

Consolidated Income Statement

The audited consolidated results of the Group for the year ended 31 December 2004, together with the comparative figures of 2003 are as follows:

	<i>Note</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Turnover	2	773,425	673,812
Other revenue		6,518	4,061
Depreciation		(468)	(567)
Staff costs		(37,824)	(31,432)
Cost of inventories		(350,419)	(384,776)
Other operating expenses		(56,983)	(24,934)
Profit from operations		334,249	236,164
Finance costs		(6,169)	(11,036)
Share of profits less losses of associated companies		12,889	7,496
Profit on disposal of investments in securities		—	2,399
Profit before taxation		340,969	235,023
Income tax	3	(38,141)	(33,480)
Profit after taxation		302,828	201,543
Minority interests		268	(43)
Profit attributable to shareholders		303,096	201,500
Dividends attributable			
Interim dividend paid of 7 HK cents (2003: 6 HK cents) per share		39,674	29,026
Final dividend proposed after the balance sheet date of 25 HK cents (2003: 22 HK cents) per share		141,692	124,689
		181,366	153,715
Earnings per share (HK cents)	4	53.9	41.7

Notes:

1. Basis of preparation of accounts

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice 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 provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Segment information

	Group turnover		Contribution to Group operating profit	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (Restated)
<i>(a) Business segments</i>				
Property investment	206,595	179,308	182,778	163,768
Property development	294,718	228,320	102,324	25,398
Financing and investments	264,894	260,623	78,412	63,945
Others	7,218	5,561	2,624	868
	<u>773,425</u>	<u>673,812</u>	<u>366,138</u>	<u>253,979</u>
Unallocated group expenses			<u>(31,889)</u>	<u>(17,815)</u>
Profit from operations			<u>334,249</u>	<u>236,164</u>

For better presentation, financing business was reclassified from “others” to “financing and investments” and the comparative figures had been restated accordingly.

(b) *Geographical segments*

	Group turnover		Contribution to Group operating profit	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	723,189	621,185	286,544	198,924
North America	43,679	23,431	42,780	23,281
Europe	6,557	27,298	4,925	12,712
Others	—	1,898	—	1,247
	<u>773,425</u>	<u>673,812</u>	<u>334,249</u>	<u>236,164</u>

3. **Income tax**

	2004 HK\$'000	2003 HK\$'000
Current tax — Hong Kong	33,742	24,043
Deferred tax		
— Current year	1,064	5,792
— Attributable to change in tax rate	—	1,172
	<u>34,806</u>	<u>31,007</u>
Share of associated companies' taxation		
— Hong Kong	479	276
— Overseas	2,856	2,197
	<u>38,141</u>	<u>33,480</u>

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits. Overseas taxation has been provided for at the applicable tax rates ruling in the respective jurisdictions.

4. **Earnings per share**

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$303,096,312 (2003: HK\$201,499,732) and the weighted average number of shares in issue during the year of 562,685,882 (2003: 483,767,850).

(b) *Diluted earnings per share*

No diluted earnings per share for 2003 and 2004 has been presented as the Company had no dilutive potential shares for both years.

BUSINESS REVIEW

Against the background of gradual economic recovery, expanded tourism from mainland China and buoyant property market, business environment and market sentiment have improved during the year.

The Group continued to grow and expand during the year under review. The results of our principal business activities, including property sales and leasing, were satisfactory with improvements recorded. In anticipation of a faster expansion, the Group issued 83 million new shares at the beginning of the year under review to provide for flexibility in development under a stronger capital base. After taking into account for the new issue, earnings per share grew by 29% on the weighted average number of 562,685,882 shares in issue during 2004.

In January 2004, recognising the promising prospects of Macau's economy, we acquired an 80% interest in the large-scale Macau residential property development project, La Baie Du Noble. With market oriented design and all rounded facilities, overwhelming interest has been received since commencement of the pre-sale of La Baie Du Noble, and about 80% of the residential units have been pre-sold.

In the first half of 2004, we acquired at a total consideration of HK\$152 million two commercial properties in Tsim Sha Tsui East to further strengthen our portfolio of investment properties and hence our recurrent income base. Both the office and retail sectors of the Group's portfolio have generally registered rising rents and improved occupancy rates during the year.

The Group achieved growth in profit from property sales in 2004 riding on the tide of appreciation in property prices. While income from rental activities still accounted for a significant portion of the Group's total profit, a more balanced contribution from property sales and rental activities has been achieved.

Property Sales

With the return in general confidence to the property market, the Group's property sales turnover in 2004 climbed to HK\$295 million, up 29% compared with HK\$228 million recorded in 2003. Such income was generated primarily from the sale of a majority of the 75 residential units of La Maison Du Nord at No.12 North Street and about 40% of the luxury residential units of Padek Palace at No.377 Prince Edward Road West.

Property Development

Property development project completed

<u>Location</u>	<u>Usage</u>	<u>Group's Interest</u> (%)	<u>Attributable Gross Floor Area</u> (sq.ft.)
Padek Palace No.377 Prince Edward Road West Kowloon City Kowloon	Residential	100	54,896

Property development projects in progress

<u>Location</u>	<u>Usage</u>	<u>Group's Interest</u> (%)	<u>Attributable Gross Floor Area</u> (sq. ft.)	<u>Status</u>	<u>Expected Date of Completion</u>
Macau					
La Baie Du Noble The Orient Pearl District Macau	Commercial and Residential	80	1,280,000	Superstructure works in progress	2nd half 2005
Hong Kong					
Nos. 31 & 31A-G Robinson Road Mid-Levels Hong Kong	Residential	100	128,084	Superstructure works in progress	1st half 2006
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. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	100	2,101,428	Foundation works in progress	2007/08
			3,587,884		

La Baie Du Noble at The Orient Pearl District, Macau

The Group acquired an 80% interest in La Baie Du Noble, a prominent commercial and residential property development project in Macau, in the beginning of 2004 at a consideration of HK\$400 million. This project involves the development of a luxury coast-front property in The Orient Pearl District comprising five residential blocks erected over a 3-storey podium with shopping mall, car parks, a clubhouse and recreational facilities.

31 & 31A-G Robinson Road, Mid-Levels, Hong Kong

The development is being developed into a deluxe residential tower comprising a swimming pool, car parks, a clubhouse and recreational facilities.

33 Ka Wai Man Road, Kennedy Town, Hong Kong

This residential project joint-ventured with Urban Renewal Authority involves the development of a high class residential tower with car parks, a clubhouse and a swimming pool.

35 Clear Water Bay Road, Ngau Chi Wan, Kowloon

The site will be developed into a comprehensive residential development with retail and community facilities. Following the award of site formation and foundation contract, foundation works have commenced. Land premium is currently under negotiation.

Property Investment

As the local economy gradually recovered in 2004, demand for grade A office and prime shops in tourist districts has maintained an upward trend. Both office and retail rental yields have generally improved for new leases and renewals. The gross rental income generated by the Group's portfolio of investment properties increased by 15% and reached HK\$207 million (2003: HK\$179 million). The increase was largely due to the rise in rental income from retail tenancies of Pioneer Centre and additional rental contributed by the two commercial properties in Tsim Sha Tsui East acquired by the Group in the first half of 2004.

The Group has gradually transformed Pioneer Centre into a youth-oriented focal point in Mongkok through the renovation programme for the shopping mall of Pioneer Centre which continued in 2004. Lettable gross floor area of the retail podium is around 180,000 sq. ft. upon completion of the renovation.

The overall occupancy rate of Pioneer Centre at the end of 2004 dropped slightly to 93% (2003: 96%). This was mainly caused by the renovation work on the Second and Third Floors of the Pioneer Centre shopping mall. In spite of the negative impact of the renovation work, rental income from Pioneer Centre increased 13% to HK\$169 million in 2004 (2003: HK\$149 million).

Apart from Pioneer Centre, the Group's other investment properties, mainly comprising retail shopping malls, commercial offices and serviced apartments, also performed well in the year under review with occupancy staying above 95%. Taking into account additional rental income from the Second Floor of the commercial podium of New Mandarin Plaza and together with the shop spaces and 10 car parking spaces on the Basement Floor of Peninsula Centre acquired by the Group in the first half of 2004, gross rental income from investment properties excluding Pioneer Centre rose by 27% to HK\$38 million.

Property Management

The size of the portfolio managed by the Group and its associated companies as at the end of 2004 exceeded 7.7 million sq. ft. While the property management business generates relatively insignificant income to the Group, the provision of quality management services is an indispensable element for the general development of the Group's property business.

Financing and Investments

As at 31 December 2004, the Group had invested a total of HK\$239 million in financial investments of which HK\$110 million was in long term investment and HK\$129 million was in short term investment. The decrease in investment from HK\$459 million at the end of 2003 is a result of the early redemption by the issuer of the US\$50 million 10 year note held as long term investment before the end of 2004.

The Group's money-lending business which mainly involved the provision of property mortgages and second mortgages to purchasers of the Group's property developments has recorded reasonable growth during the year.

In the year under review, financing and investment activities delivered HK\$78 million contribution from operations as compared with HK\$64 million in 2003.

Others

The film library of the Group has contributed a small profit to the Group in 2004.

The performance of the footwear wholesale and retail business of Southern Success Corporation has been encouraging and profit has more than doubled in 2004. The 20% interest in the company has contributed about HK\$7.3 million profit to the Group (2003: HK\$3.5 million).

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2004 amounted to HK\$1,752 million representing a decrease of HK\$457 million as from the end of 2003. In early 2004, the Group raised HK\$569 million from the issue of 83 million new shares. The sale of the development projects, La Maison Du Nord and Padek Palace, contributed a total cash inflow of more than HK\$250 million. In addition, the US\$50 million 10 year note held by the Group was redeemed early by the note issuer during the year under review. During 2004, the Group acquired an 80% interest in La Baie Du Noble, Macau, at a consideration of HK\$400 million and two investment properties in Tsim Sha Tsui East with a total cost of HK\$152 million.

The gearing ratio, calculated on the basis of bank borrowings to shareholders' equity, was substantially reduced to 41% at 31 December 2004 as compared with 67% at the end of 2003.

All banking facilities are arranged on a floating rate basis. The Group did not enter into any interest rate swap arrangement during the year. Management will observe the market, monitor the interest exposure closely and consider hedging when appropriate.

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

The Group has little exposure to currency risk as most of the Group's operations are in Hong Kong and transactions are denominated in local currency.

Commitments

As at 31 December 2004, the Group had contracted commitments of HK\$635 million for properties and another HK\$87 million for financial investments.

Commitments authorised but not contracted for related to properties under development amounted to HK\$5 million.

Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK\$14 million to insurance companies in respect of performance bonds entered into by the associated companies engaged in property management services.

As at 31 December 2004, properties and securities of the Group with an aggregate carrying value of HK\$3,960 million were pledged to banks to secure credit facilities or as margin for financial investments.

PROSPECTS

Prices of investment properties and land in Hong Kong have soared rapidly during the past year, which has led to a general reduction in investment opportunities with attractive profit margin. In this connection, the Group has adjusted its strategy and reduced the pace of sales of development properties while leaving the Group's business development and earnings growth unaffected.

Our development projects are progressing well as planned and they will be released to the market in the appropriate time which will hopefully maximize profits and further strengthen our foundation for future development. La Baie Du Noble in Macau will be completed by the end of this year and is expected to make a significant contribution to the Group's results of 2005. The Group is now studying the feasibility of participating in a number of development projects and is confident in adding new development projects in 2005.

In light of the persistent high price of oil and rising interest rate, we will adopt prudent but proactive strategy in our pursuit of investment opportunities with reasonable return in order to build a sound foundation for continuous business expansion and earnings growth.

OTHER INFORMATION

Staff Remuneration and Training

The Group (excluding associated companies) employed a total of 155 employees at the end of 2004 (2003: 135 employees). Employee remuneration amounted to approximately HK\$38 million in 2004. The Group ensures that pay levels of employees remain competitive and employees are rewarded based on their performance. The Group operates a share option scheme to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

Audit Committee

The Audit Committee, comprising four Non-executive Directors a majority of whom are Independent Non-executive Directors, meets at least twice a year to review interim and final results of the Group prior to recommending them to the Board for approval and to discuss matters relating to the effectiveness of the Group's financial reporting process and internal controls. Senior representatives of the auditors and senior executives of the Company are invited to attend the meetings.

Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules (before amendments effective 1 January 2005), at any time during the year.

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 year 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 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.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

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

Hong Kong, 30 March 2005

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

This results announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Group (www.kdc.com.hk) in due course and the 2004 Annual Report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules (before amendments effective 31 March 2004) will be available from the same websites on or before 13 April 2005.

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