

Chairman's Statement

Group Results and Dividends

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

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

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

Business Review

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



Mount Davis 33

Major Acquisitions

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

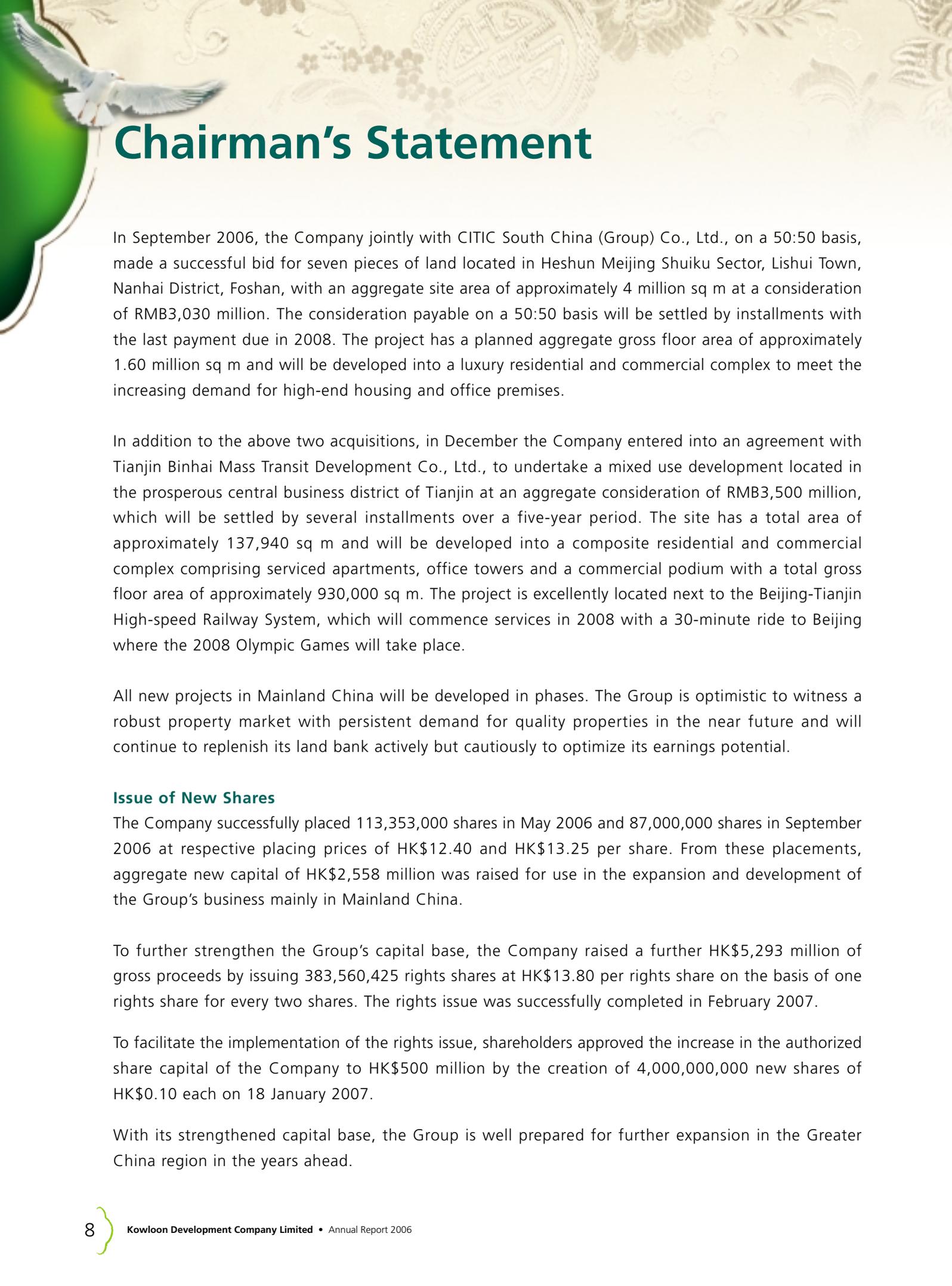
The three sites are located in the Orient Pearl District of the Macau Peninsula near the Macau-Zhuhai border and the intended landing point of the Hong Kong – Zhuhai – Macau Bridge, a 29 kilometers bridge linking Hong Kong, Zhuhai and Macau. The bridge will be a spur to Greater Pearl River Delta economic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

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

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



Shenyang Development Site – Concept Plan



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

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

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

Issue of New Shares

The Company successfully placed 113,353,000 shares in May 2006 and 87,000,000 shares in September 2006 at respective placing prices of HK\$12.40 and HK\$13.25 per share. From these placements, aggregate new capital of HK\$2,558 million was raised for use in the expansion and development of the Group's business mainly in Mainland China.

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

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

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



Rendering of property located at No. 31 Robinson Road

Property Development

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

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

In Taipa Macau, Pacifica Garden, a 58% owned residential and commercial project of Polytec Asset is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a

total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

Property Sales

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

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

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

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



La Baie Du Noble in Macau

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

Property Investment

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

Securities Investment

Benefiting from outperforming China-concept stocks and the favourable sentiment in the securities market throughout 2006, the securities investment division showed an impressive performance in the financial year under review. The Group will continue to adopt a prudent and cautious approach in seeking investment opportunities to sustain growth for its investment portfolio.

Prospects

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

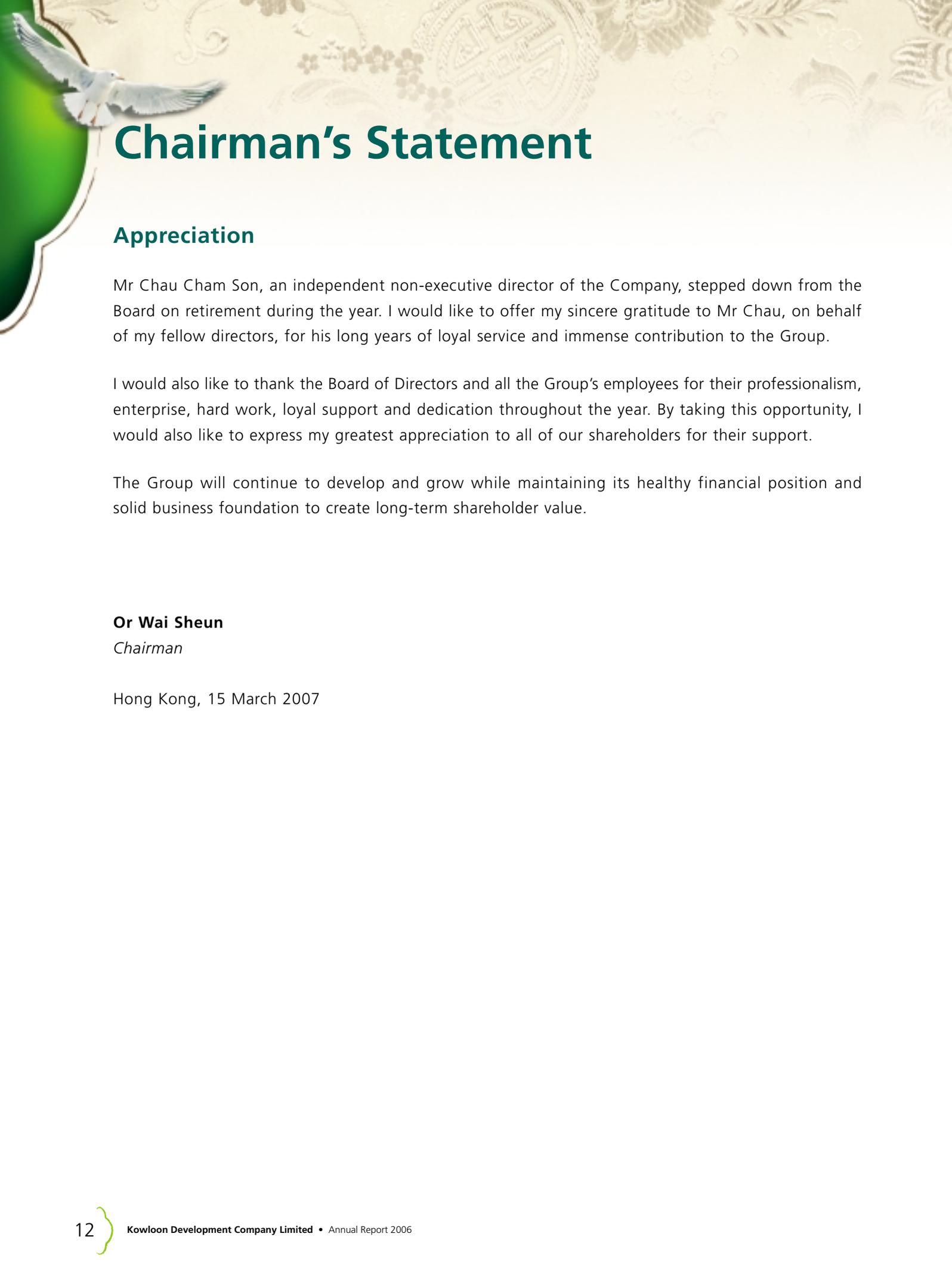
The strategic major acquisitions made during the year 2006 have set a solid base for the Group's development in the property markets of Macau and Mainland China. The Group is confident that these acquisitions will contribute substantial returns to the Group in the next few years.

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

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



2006 foreign investment contribution award to the Group from Government of Liaoning Province



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Appreciation

Mr Chau Cham Son, an independent non-executive director of the Company, stepped down from the Board on retirement during the year. I would like to offer my sincere gratitude to Mr Chau, on behalf of my fellow directors, for his long years of loyal service and immense contribution to the Group.

I would also like to thank the Board of Directors and all the Group's employees for their professionalism, enterprise, hard work, loyal support and dedication throughout the year. By taking this opportunity, I would also like to express my greatest appreciation to all of our shareholders for their support.

The Group will continue to develop and grow while maintaining its healthy financial position and solid business foundation to create long-term shareholder value.

Or Wai Sheun

Chairman

Hong Kong, 15 March 2007