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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)**

**ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

**HIGHLIGHTS**

- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2012 amounts to HK\$968 million, an increase of 19.9% over 2011. The underlying earnings per share are HK\$0.84 for 2012 compared to HK\$0.70 in 2011.
- Full year dividend per share for 2012 amounts to HK\$0.57, an increase of 5.6% over 2011, with a final dividend per share of HK\$0.36.
- In 2012, the Group achieved substantial presales well exceeding HK\$10 billion from its various development projects in Hong Kong, Macau and Mainland China.

**GROUP RESULTS AND DIVIDENDS**

For the year ended 31 December 2012, net profit attributable to shareholders of the Company amounted to HK\$1,886 million compared to HK\$1,526 million in 2011, an increase of 23.6% over 2011. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2012 amounted to HK\$968 million, an increase of 19.9% over 2011. The underlying net earnings per share for 2012 were HK\$0.84 compared to HK\$0.70 in 2011.

The Board of Directors has recommended the payment of a final dividend of HK\$0.36 per share (2011: HK\$0.33) for the year ended 31 December 2012. Together with the 2012 interim dividend of HK\$0.21 per share (2011: HK\$0.21), the full year dividend for 2012 amounts to HK\$0.57 per share (2011: HK\$0.54).

The final dividend will be payable on Wednesday, 17 July 2013 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 July 2013, subject to the approval of shareholders at the Annual General Meeting.

## **BUSINESS REVIEW**

The three property markets of Hong Kong, Macau and Mainland China have gradually adapted to the various governmental measures, which have remained in place throughout 2012 and home-buying appetite picked up steadily in all three property markets in the second half of 2012 amid prevailing low interest rates and ample global liquidity created by major central banks around the globe to buoy their respective economies. The Group's property business has benefited from these favorable market conditions and it achieved substantial presales from its various property development projects, particularly in Hong Kong and Macau.

### ***Property Sales***

In Hong Kong, since May 2012, the Group has successfully launched a total of three new development projects for presale, namely Gardenia, Cadogan and Upper West, with total presale proceeds for these projects having so far exceeded HK\$3 billion. The Group has sold all residential units at Gardenia, its wholly-owned residential project in Kowloon, with total recognised sales in 2012 of HK\$1,035 million. The Group also sold almost all residential units at Mount East, its 100% owned luxury residential and commercial project in North Point, with total recognised sales in 2012 of HK\$163 million.

In July 2012, the Group launched Cadogan, its wholly-owned luxury residential and commercial project in Kennedy Town and it has pre-sold over 50% of the residential units so far and these sales are expected to be recognised in 2013. In early February 2013, the Group has launched the presale for Upper West, its 100% owned luxury residential and commercial project in Tai Kok Tsui, West Kowloon, and a majority of the residential portion has been pre-sold so far. The project is expected to be completed in the first half of 2016.

In Mainland China, total property sales/presales amounted to approximately HK\$2 billion in 2012. The Group has sold almost all residential units and a portion of the retail shops and carparking spaces of the first phase of Le Cove City (Shenyang), its wholly-owned residential and commercial development project, with total sales of HK\$304 million recognised in 2012. The Group has pre-sold over 70% of the residential units of the second phase of Le Cove City (Shenyang). For The Lake, the Group's 50%-owned project in Foshan, total sales of HK\$1.75 billion were recognised in 2012.

In Macau, the Group launched new phases of the Pearl Horizon project for the presale in the middle of 2012. These have been well received by the market, with almost all residential units offered being pre-sold and total presales amounting to over HK\$10 billion. This mega residential and commercial development project is expected to be completed in 2016/2017.

### ***Property Development***

For the period under review, the Group continued to explore additional development projects to replenish its landbank in all three property markets in order to further strengthen its future growth.

In Hong Kong, the Group has replenished our landbank over the past few years mainly through acquisition of old residential units in urban areas for redevelopment. As of end-December 2012, the Group completed the acquisition of approximately 91.4% ownership of a residential and commercial redevelopment site in Hung Hom, with total gross floor area (“GFA”) for redevelopment of 33,900 sq m. The Group is still in process of acquiring the remaining stake and it may take 12 to 18 months to obtain 100% ownership. In addition, in early January this year, the Group successfully completed the expansion of its residential redevelopment project in Pok Fu Lam Road by acquiring the adjacent site, thus increasing the GFA for redevelopment to 11,100 sq m from 9,300 sq m.

As of 31 December 2012, the Group’s landbank for development amounted to approximately 5 million sq m of attributable GFA. The Group’s major property projects under planning and development are set out as follows:

*Major Property Projects under Planning and Development*

| Property Project     | District/ City          | Location                | Usage   | Approx. Total Site Area (sq m) | Approx. GFA (sq m) | Group’s Interest  | Status   | Expected Date of Completion                    |
|----------------------|-------------------------|-------------------------|---|--------------------------------|--------------------|---|--|--|
| <b>Hong Kong</b>     |                         |                         |   |                                |                    |   |  |  |
| Cadogan              | Kennedy Town, Hong Kong | 37A Cadogan Street      | Residential & commercial                        | 1,318                          | 13,200             | 100%  | Superstructural work in progress                                 | 2013/2014                                      |
| Upper West           | Tai Kok Tsui, Kowloon   | 18 Fuk Chak Street      | Residential & commercial                        | 781                            | 6,600              | 100%  | Foundation work in progress                                      | March 2016                                     |
| MacPherson Place     | Mongkok, Kowloon        | 38 Nelson Street        | Stadium, youth centre, residential & commercial | 2,400                          | 24,800             | Joint venture with Urban Renewal Authority and Hong Kong Playground Association | Superstructural work topped out and fitting-out work in progress | Obtained Occupation Permit on 31 December 2012 |
| Pok Fu Lam Road      | Sai Ying Pun, Hong Kong | 45-65A Pok Fu Lam Road  | Residential                                     | 1,388                          | 11,100             | 100%*   | Seeking Building Department’s approval on development proposal   | To be determined                               |
| Hung Hom             | Hung Hom, Kowloon       | Wan On Street           | Residential & commercial                        | 4,038                          | 33,900             | 91.4%   | Acquisition of the remaining units in progress                   | To be determined                               |
| Clear Water Bay Road | Ngau Chi Wan, Kowloon   | 35 Clear Water Bay Road | Residential & commercial                        | 19,335                         | 196,400            | 100%  | Foundation work in progress                                      | To be determined                               |

\* Acquisition of 45-47 Pok Fu Lam Road was completed in January 2013.

*Major Property Projects under Planning and Development (continued)*

| Property Project                        | District/City                  | Location  | Usage                    | Approx. Total Site Area (sq m) | Approx. GFA (sq m)   | Group's Interest | Status  | Expected Date of Completion |
|---|--------------------------------|---|--------------------------|--------------------------------|----------------------|------------------|---|-----------------------------|
| <b>Mainland China</b>                   |                                |   |                          |                                |                      |                  |   |                             |
| Le Cove City (Shenyang)<br>江灣城 (瀋陽)     | Hun Nan Xin District, Shenyang | 6 Hun Nan Er Road   | Residential & commercial | 165,303                        | 712,000              | 100%             | Fitting-out work for second phase in progress | By phases from 2011 onwards |
| The Gardenia (Shenyang)<br>翠堤灣 (瀋陽)     | Shenhe District, Shenyang      | West of Daba Road   | Residential & commercial | 1,100,000                      | 2,000,000            | 100%             | Fitting-out work for first phase in progress  | By phases from 2013 onwards |
| Le Cove City (Wuxi)<br>江灣城 (無錫)         | Chong An District, Wuxi        | Tongyun Road and Gongyun Road   | Residential & commercial | 68,833                         | 404,400 <sup>#</sup> | 80%              | Fitting-out work for first phase in progress  | By phases from 2014 onwards |
| Galaxy Heights (Zhongshan)<br>星際豪庭 (中山) | Shiqi District, Zhongshan      | 8 Xueyuan Road  | Residential & commercial | 18,334                         | 129,000              | 70%              | Fitting-out work in progress                  | 2013                        |
| The Lake (Foshan)<br>山語湖 (佛山)           | Nanhai District, Foshan        | Heshun Meijing Shuiku Sector, Lishui Town                                     | Residential & commercial | 4,020,743                      | 1,600,000            | 50%              | Construction work in progress                 | By phases from 2009 onwards |
| Hedong Project (Tianjin)<br>河東項目 (天津)   | Hedong District, Tianjin       | Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road | Residential & commercial | 135,540                        | 930,000              | 49%              | Master layout plan submitted for approval     | To be determined            |
| Jun Tai Garden (Dongguan)<br>君怡花園 (東莞)  | Nancheng District, Dongguan    | East of Hongwei Road, Xi Ping She Qu  | Residential & commercial | 32,521                         | 79,700               | 40%              | Foundation work in progress                   | 2014                        |
| <b>Macau</b>                            |                                |   |                          |                                |                      |                  |   |                             |
| Pearl Horizon, Lote P                   | Novos Aterros da Areia Preta   | Lote P, The Orient Pearl District   | Residential & commercial | 68,000                         | 699,700              | 58.8%            | Building plan has been approved               | 2016/2017                   |
| Lotes T + T1                            | Novos Aterros da Areia Preta   | Lotes T + T1, The Orient Pearl District                                       | Residential & commercial | 17,900                         | 195,600              | 58.8%            | Building plan has been approved               | To be determined            |

<sup>#</sup> With additional underground GFA of approximately 15,000 sq m for the commercial portion and over 2,300 carparking spaces.

### ***Property Investment***

The Group disposed of a number of retail units at New Mandarin Plaza and Sino Centre in Hong Kong, with total recognised sales of HK\$209 million for the period under review. The Group sold the remaining units at New Mandarin Plaza in the second half of 2012, with total sales of HK\$655 million and these transactions should be completed in the first half of 2013.

The Group's gross rental income from its property investment portfolio for 2012 rose to HK\$300 million, an increase of 2.4% over 2011. The relatively slower rate of growth in rental income for 2012 was mainly attributable to the disposal of the above non-core investment properties. Total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK\$250 million in 2012, or at a growth rate of 4.2%, with almost all retail spaces and offices being let as of 31 December 2012.

### ***Oil and Gas Business***

For the year ended 31 December 2012, total revenue generated from the oil segment amounted to HK\$641 million. The segment recorded an operating profit of HK\$113 million in 2012 compared to an operating loss of HK\$41 million in 2011. The significant improvement in this segment profit was mainly due to the positive results generated from the Group's drilling program over the past couple of years. New wells have been put into production during 2012 and the overall production rate reached an average of over 3,000 barrels per day in December 2012 compared to an average of 1,300 barrels during the same period in 2011.

Further to two announcements made by the Company on 3 January 2013 and 1 February 2013, the Group's oil production has temporarily suspended since 1 January 2013, pending approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan from the government. The management has been taking all necessary steps to obtain the permit for the oilfield as soon as possible. However, the temporary disruption in oil production may affect the Group's earnings from this segment in 2013.

The Group's exposure in the oil and gas business is through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset").

## PROSPECTS

In the US, it appears that a sustainable but moderate economic recovery this year is underway, with recent data showing some positive signs of revival in both housing and labor markets. In Europe, following the sovereign debt crisis, a majority of member countries of the European Union (EU) have started implementing austerity programs to narrow down their respective fiscal deficits, which will likely dampen the economic recovery in 2013. In Japan, if the depreciation of its currency persists, it will likely improve the country's deflation situation and stimulate the economy. In China, it is expected that real gross domestic product will continue to grow at a range of 7.5% to 8.0% in 2013.

In summary, the Group believes that low interest rates and ample liquidity will remain for the rest of 2013 and therefore the property markets in the Greater China region will continue to be benefited. However, we expect that housing prices may not rise much further in the three property markets, Hong Kong, Macau and Mainland China during 2013 as any noticeable surge in prices may trigger further restrictive measures by the respective governments.

In 2012, with prevailing low interest rates and excessive liquidity created by the world's major central banks, the Group's core property business has benefited from these favorable market conditions. The sales and presales from various property development projects in all three markets have well exceeded HK\$10 billion. The Group is optimistic about its property sales outlook for the coming year. In 2013, the Group's earnings will be mainly generated from property sales in Hong Kong, including two development projects namely Cadogan and MacPherson Place. In 2014, the development projects in Mainland China should contribute a more substantial portion to the Group's earnings.

With successful sale and presale of various development projects over the past year, the Group will continue to replenish and expand our landbank across the Greater China region in order to achieve sustainable earnings growth for the Group. Barring unforeseen circumstances, it is expected that the Group's operating results for 2013 may continue to improve.

## CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2012 together with the comparative figures of 2011 are as follows:

### Consolidated Income Statement for the year ended 31 December 2012

|   | Note | 2012<br>HK\$'000        | 2011<br>HK\$'000        |
|---|------|-------------------------|-------------------------|
| <b>Turnover</b>                                 | 3    | <b>2,555,824</b>        | 1,755,293               |
| Cost of sales                                   |      | (1,030,112)             | (896,555)               |
| Other revenue                                   |      | 31,048                  | 19,729                  |
| Other net income                                | 4    | 138,103                 | 287,792                 |
| Depreciation and amortisation                   |      | (15,638)                | (12,831)                |
| Staff costs                                     |      | (184,488)               | (152,568)               |
| Selling, marketing and distribution expenses    |      | (381,977)               | (145,337)               |
| Other operating expenses                        |      | (90,730)                | (87,079)                |
| Fair value changes on investment properties     |      | <u>883,550</u>          | <u>730,178</u>          |
| <b>Profit from operations</b>                   |      | <b>1,905,580</b>        | 1,498,622               |
| Finance costs                                   | 5    | (100,312)               | (62,753)                |
| Share of profits of associated companies        |      | 2,089                   | 1,950                   |
| Share of profits of jointly controlled entities |      | <u>340,214</u>          | <u>321,765</u>          |
| <b>Profit before taxation</b>                   | 6    | <b>2,147,571</b>        | 1,759,584               |
| Income tax                                      | 7    | <u>(172,182)</u>        | <u>(159,219)</u>        |
| <b>Profit for the year</b>                      |      | <b><u>1,975,389</u></b> | <b><u>1,600,365</u></b> |
| <b>Attributable to :</b>                        |      |                         |                         |
| Shareholders of the Company                     |      | 1,886,254               | 1,526,385               |
| Non-controlling interests                       |      | <u>89,135</u>           | <u>73,980</u>           |
| <b>Profit for the year</b>                      |      | <b><u>1,975,389</u></b> | <b><u>1,600,365</u></b> |
| <b>Earnings per share - Basic/Diluted</b>       | 8    | <b><u>HK\$1.64</u></b>  | <b><u>HK\$1.33</u></b>  |

**Consolidated Statement of Comprehensive Income**  
*for the year ended 31 December 2012*

|   | <b>2012</b><br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| <b>Profit for the year</b>  | <u><b>1,975,389</b></u>        | <u>1,600,365</u>        |
| <b>Other comprehensive income for the year</b>  |                                |                         |
| Exchange differences on translation of accounts of overseas subsidiaries                    | <b>(1,156)</b>                 | 152,887                 |
| Changes in fair value of available-for-sale investments                                     | <b>(5,282)</b>                 | (1,084)                 |
| Changes in fair value of interests in property development                                  | <b>7,277</b>                   | 17,577                  |
| Share of other comprehensive income of jointly controlled entities and associated companies | <b>374</b>                     | 132,534                 |
| Transfer to income statement upon disposal of a subsidiary                                  | <u>—</u>                       | <u>(481)</u>            |
|   | <u><b>1,213</b></u>            | <u>301,433</u>          |
| <b>Total comprehensive income for the year</b>  | <u><b>1,976,602</b></u>        | <u>1,901,798</u>        |
| <b>Attributable to :</b>  |                                |                         |
| Shareholders of the Company   | <b>1,904,194</b>               | 1,793,444               |
| Non-controlling interests   | <u><b>72,408</b></u>           | <u>108,354</u>          |
| <b>Total comprehensive income for the year</b>  | <u><b>1,976,602</b></u>        | <u>1,901,798</u>        |



## Consolidated Balance Sheet

|   |      | As at 31 December 2012 |                   | As at 31 December 2011 |                   |
|---|------|------------------------|-------------------|------------------------|-------------------|
|   | Note | HK\$'000               | HK\$'000          | HK\$'000               | HK\$'000          |
| <b>Non-current assets</b>               |      |                        |                   |                        |                   |
| Fixed assets                            |      |                        |                   |                        |                   |
| – Investment properties                 |      |                        | 9,626,134         |                        | 8,808,370         |
| – Leasehold land held for own use       |      |                        | 222,360           |                        | 228,964           |
| – Other property, plant and equipment   |      |                        | <u>1,319,468</u>  |                        | <u>1,291,609</u>  |
|   |      |                        | <b>11,167,962</b> |                        | <b>10,328,943</b> |
| Oil exploitation assets                 |      |                        | 109,014           |                        | 120,785           |
| Interests in property development       |      |                        | 10,198,258        |                        | 10,190,981        |
| Interest in jointly controlled entities |      |                        | 2,247,554         |                        | 1,907,547         |
| Interest in associated companies        |      |                        | 2,331,841         |                        | 2,124,195         |
| Financial investments                   |      |                        | 8,485             |                        | 19,555            |
| Loans and advances                      |      |                        | 32,069            |                        | 3,088             |
| Deferred tax assets                     |      |                        | <u>53,233</u>     |                        | <u>10,314</u>     |
|   |      |                        | <b>26,148,416</b> |                        | <b>24,705,408</b> |
| <b>Current assets</b>                   |      |                        |                   |                        |                   |
| Inventories                             |      |                        | 13,236,301        |                        | 11,736,445        |
| Trade and other receivables             | 10   |                        | 1,093,506         |                        | 593,515           |
| Loans and advances                      |      |                        | 16,925            |                        | 22,252            |
| Amounts due from                        |      |                        |                   |                        |                   |
| jointly controlled entities             |      |                        | 86,524            |                        | 131,662           |
| Financial investments                   |      |                        | 94,937            |                        | 80,255            |
| Pledged bank deposits                   |      |                        | 35,396            |                        | 15,000            |
| Cash and cash equivalents               |      |                        | <u>564,889</u>    |                        | <u>764,144</u>    |
|   |      |                        | <b>15,128,478</b> |                        | <b>13,343,273</b> |

|   |      | As at 31 December 2012 |                          | As at 31 December 2011 |                          |
|---|------|------------------------|--------------------------|------------------------|--------------------------|
|   | Note | HK\$'000               | HK\$'000                 | HK\$'000               | HK\$'000                 |
| <b>Current liabilities</b>  |      |                        |                          |                        |                          |
| Trade and other payables  | 11   | 2,601,946              |                          | 1,609,749              |                          |
| Amounts due to non-controlling interests                            |      | 200,000                |                          | 200,000                |                          |
| Amount due to a jointly controlled entity                           |      | 762,368                |                          | 581,200                |                          |
| Bank loans  |      | 1,603,863              |                          | 1,415,000              |                          |
| Current taxation  |      | 285,117                |                          | 257,856                |                          |
|   |      | <u>5,453,294</u>       |                          | <u>4,063,805</u>       |                          |
| <b>Net current assets</b>   |      |                        | <u>9,675,184</u>         |                        | <u>9,279,468</u>         |
| <b>Total assets less current liabilities</b>                        |      |                        | <u>35,823,600</u>        |                        | <u>33,984,876</u>        |
| <b>Non-current liabilities</b>                                      |      |                        |                          |                        |                          |
| Loan from ultimate holding company                                  |      | 5,666,253              |                          | 5,097,532              |                          |
| Amount payable to ultimate holding company                          |      | 842,884                |                          | 680,579                |                          |
| Bank loans  |      | 4,265,660              |                          | 4,531,779              |                          |
| Other payables  |      | 48,732                 |                          | 46,637                 |                          |
| Deferred tax liabilities  |      | 859,073                |                          | 812,814                |                          |
|   |      |                        | <u>11,682,602</u>        |                        | <u>11,169,341</u>        |
| <b>NET ASSETS</b>   |      |                        | <u><u>24,140,998</u></u> |                        | <u><u>22,815,535</u></u> |
| <b>Capital and reserves</b>   |      |                        |                          |                        |                          |
| Share capital   |      | 115,068                |                          | 115,068                |                          |
| Reserves  |      | 20,939,664             |                          | 19,656,838             |                          |
| <b>Total equity attributable to the shareholders of the Company</b> |      |                        | <u>21,054,732</u>        |                        | <u>19,771,906</u>        |
| <b>Non-controlling interests</b>                                    |      |                        | <u>3,086,266</u>         |                        | <u>3,043,629</u>         |
| <b>TOTAL EQUITY</b>   |      |                        | <u><u>24,140,998</u></u> |                        | <u><u>22,815,535</u></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 (“HKASs”) 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 Listing Rules”).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts. Except as described in Note 2, the accounts have been prepared on a basis consistent with the accounting policies adopted in the prior year accounts.

## 2 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. Except for the amendments to HKAS 12, Income taxes – “Deferred tax: recovery of underlying assets”, which the Group has already adopted in the prior period, none of other developments are relevant to Group's financial statements.

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

## 3 Segment reporting

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments.

- Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties. Given the importance of property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.
- Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.
- Oil segment: oil exploration and production.
- Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

Turnover comprises mainly rental income from properties, gross proceeds from sales of properties, crude oil, held for trading investments, dividend and interest income.

Reporting segment profit represents profit before tax by excluding fair value changes on investment properties, finance costs, exceptional items and head office and corporate income/expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets.

(a) **Segment results and assets**

Information regarding the Group's reportable segments as provided to the Group's top management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

|   | 2012                     |                       |                               |                   |                                    |                 |                    |
|---|--------------------------|-----------------------|-------------------------------|-------------------|------------------------------------|-----------------|--------------------|
|   | Property development     |                       |                               |                   |                                    |                 |                    |
|   | Consolidated<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Macau<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Oil<br>HK\$'000 | Others<br>HK\$'000 |
| Turnover  | <u>2,555,824</u>         | <u>1,199,493</u>      | <u>287,333</u>                | <u>2,940</u>      | <u>300,388</u>                     | <u>641,255</u>  | <u>124,415</u>     |
| Reportable segment profit   | 1,203,605                | 520,015               | 183,991                       | 6,441             | 307,669                            | 113,144         | 72,345             |
| Other net income  | 123,421                  | -                     | -                             | 21,805            | 101,616                            | -               | -                  |
| Fair value changes on<br>investment properties  | 883,550                  | -                     | -                             | -                 | 883,550                            | -               | -                  |
| Share of fair value changes on<br>investment properties of<br>a jointly controlled entity | 120,120                  | -                     | -                             | -                 | 120,120                            | -               | -                  |
| Head office and corporate<br>expenses   | (82,813)                 | -                     | -                             | -                 | -                                  | -               | -                  |
| Finance costs   | <u>(100,312)</u>         | -                     | -                             | -                 | -                                  | -               | -                  |
| Profit before taxation  | <u>2,147,571</u>         | -                     | -                             | -                 | -                                  | -               | -                  |
| Share of profits of<br>associated companies   | 2,089                    | -                     | (2,495)                       | -                 | -                                  | -               | 4,584              |
| Share of profits of jointly<br>controlled entities  | 340,214                  | -                     | 183,012                       | -                 | 157,202                            | -               | -                  |
| Interest income   | 20,153                   | -                     | -                             | -                 | -                                  | -               | 20,153             |
| Depreciation and amortisation   | (182,267)                | -                     | -                             | -                 | -                                  | (167,800)       | (14,467)           |
|   |                          |                       |                               |                   |                                    |                 |                    |
|   | 2011                     |                       |                               |                   |                                    |                 |                    |
|   | Property development     |                       |                               |                   |                                    |                 |                    |
|   | Consolidated<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Macau<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Oil<br>HK\$'000 | Others<br>HK\$'000 |
| Turnover  | <u>1,755,293</u>         | <u>721,229</u>        | <u>467,883</u>                | <u>48,102</u>     | <u>293,289</u>                     | <u>115,513</u>  | <u>109,277</u>     |
| Reportable segment profit   | 918,275                  | 348,030               | 168,653                       | 35,240            | 308,249                            | (40,691)        | 98,794             |
| Other net income  | 130,607                  | -                     | -                             | -                 | 130,607                            | -               | -                  |
| Fair value changes on<br>investment properties  | 730,178                  | -                     | -                             | -                 | 730,178                            | -               | -                  |
| Share of fair value changes on<br>investment properties of a<br>jointly controlled entity | 106,040                  | -                     | -                             | -                 | 106,040                            | -               | -                  |
| Head office and corporate<br>expenses   | (62,763)                 | -                     | -                             | -                 | -                                  | -               | -                  |
| Finance costs   | <u>(62,753)</u>          | -                     | -                             | -                 | -                                  | -               | -                  |
| Profit before taxation  | <u>1,759,584</u>         | -                     | -                             | -                 | -                                  | -               | -                  |
| Share of profits of<br>associated companies   | 1,950                    | -                     | (1,211)                       | -                 | -                                  | -               | 3,161              |
| Share of profits of jointly<br>controlled entities  | 321,765                  | -                     | 182,889                       | -                 | 138,876                            | -               | -                  |
| Interest income   | 22,319                   | -                     | -                             | -                 | -                                  | -               | 22,319             |
| Depreciation and amortisation   | (36,080)                 | -                     | -                             | -                 | -                                  | (23,512)        | (12,568)           |
| Gain from bargain purchase  | 23,928                   | -                     | 23,928                        | -                 | -                                  | -               | -                  |
| Gain on disposal of<br>subsidiaries   | 157,596                  | 88,089                | -                             | -                 | -                                  | -               | 69,507             |

(a) Segment results and assets (continued)

|  | 2012                     |                       |                               |                   |                                    |                 |                    |
|--|--------------------------|-----------------------|-------------------------------|-------------------|------------------------------------|-----------------|--------------------|
|  | Property development     |                       |                               |                   |                                    |                 |                    |
|  | Consolidated<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Macau<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Oil<br>HK\$'000 | Others<br>HK\$'000 |
| Reportable segment assets  | 40,607,612               | 7,496,960             | 10,468,146                    | 10,313,502        | 10,443,309                         | 1,432,869       | 452,826            |
| Deferred tax assets  | 53,233                   |                       |                               |                   |                                    |                 |                    |
| Pledged bank deposits  | 35,396                   |                       |                               |                   |                                    |                 |                    |
| Cash and cash equivalents  | 564,889                  |                       |                               |                   |                                    |                 |                    |
| Head office and corporate<br>assets                                | <u>15,764</u>            |                       |                               |                   |                                    |                 |                    |
| Consolidated total assets  | <u><u>41,276,894</u></u> |                       |                               |                   |                                    |                 |                    |
| Interest in associated<br>companies                                | 2,331,841                | -                     | 2,315,147                     | -                 | -                                  | -               | 16,694             |
| Interest in and amounts due<br>from jointly controlled<br>entities | 2,334,078                | -                     | 1,525,602                     | -                 | 808,476                            | -               | -                  |
|  | 2011                     |                       |                               |                   |                                    |                 |                    |
|  | Property development     |                       |                               |                   |                                    |                 |                    |
|  | Consolidated<br>HK\$'000 | Hong Kong<br>HK\$'000 | Mainland<br>China<br>HK\$'000 | Macau<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Oil<br>HK\$'000 | Others<br>HK\$'000 |
| Reportable segment assets  | 37,245,110               | 5,949,174             | 9,676,050                     | 10,280,052        | 9,506,796                          | 1,414,643       | 418,395            |
| Deferred tax assets  | 10,314                   |                       |                               |                   |                                    |                 |                    |
| Pledged bank deposits  | 15,000                   |                       |                               |                   |                                    |                 |                    |
| Cash and cash equivalents  | 764,144                  |                       |                               |                   |                                    |                 |                    |
| Head office and corporate<br>assets                                | <u>14,113</u>            |                       |                               |                   |                                    |                 |                    |
| Consolidated total assets  | <u><u>38,048,681</u></u> |                       |                               |                   |                                    |                 |                    |
| Interest in associated<br>companies                                | 2,124,195                | -                     | 2,112,085                     | -                 | -                                  | -               | 12,110             |
| Interest in and amounts due<br>from jointly controlled<br>entities | 2,039,209                | -                     | 1,350,459                     | -                 | 688,750                            | -               | -                  |

**(b) Geographic information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial instruments and deferred assets. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets is based on the physical location of the asset, in case of interests in associated companies and jointly controlled entities, the location of operations.

|                               | Revenue                 |                         | Non-current assets       |                          |
|-------------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
|                               | 2012<br>HK\$'000        | 2011<br>HK\$'000        | 2012<br>HK\$'000         | 2011<br>HK\$'000         |
| Hong Kong (place of domicile) | <b>1,596,149</b>        | 1,093,128               | <b>8,745,807</b>         | 8,037,216                |
| Mainland China                | <b>302,268</b>          | 483,484                 | <b>5,004,455</b>         | 4,501,706                |
| Macau                         | <b>3,091</b>            | 49,394                  | <b>730,118</b>           | 578,516                  |
| Kazakhstan                    | <b>641,255</b>          | 115,513                 | <b>1,375,991</b>         | 1,364,032                |
| Others                        | <b>13,061</b>           | 13,774                  | –                        | –                        |
|                               | <b><u>2,555,824</u></b> | <b><u>1,755,293</u></b> | <b><u>15,856,371</u></b> | <b><u>14,481,470</u></b> |

In addition to the above non-current assets, the Group has interests in property development of HK\$10,198,258,000 (2011: HK\$10,190,981,000 ) in Macau.

**4 Other net income**

Other net income represents a net gain on disposal of investment properties of HK\$101,616,000 (2011: HK\$130,607,000), an impairment loss on properties written back of HK\$21,805,000 (2011: HK\$Nil), gain on disposal of subsidiaries of HK\$Nil (2011: HK\$157,596,000), a gain from bargain purchase of HK\$Nil (2011: HK\$23,928,000) in relation to the acquisition of subsidiaries and fair value changes on held for trading listed investments of gain of HK\$14,682,000 (2011: loss of HK\$24,339,000).

**5 Finance costs**

|  | 2012<br>HK\$'000       | 2011<br>HK\$'000     |
|--|------------------------|----------------------|
| Interest on bank loans and overdrafts                            | <b>113,299</b>         | 91,337               |
| Interest on loan from/amount payable to ultimate holding company | <b>90,991</b>          | 42,075               |
| Less : Amount capitalised  | <b><u>(99,004)</u></b> | <u>(66,189)</u>      |
|  | <b>105,286</b>         | 67,223               |
| Less: Interest expenses included as other operating expenses     | <b><u>(4,974)</u></b>  | <u>(4,470)</u>       |
|  | <b><u>100,312</u></b>  | <b><u>62,753</u></b> |

## 6 Profit before taxation

Profit before taxation is arrived at after charging :

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Amortisation of oil exploitation assets ( <i>Remark</i> )       | 11,771                  | 2,359                   |
| Depreciation and amortisation of fixed assets ( <i>Remark</i> ) | 170,496                 | 33,721                  |
| Staff costs ( <i>Remark</i> )                                   | <u>203,105</u>          | <u>161,758</u>          |

*Remark :*

Cost of sales includes HK\$177,852,000 (2011: HK\$32,439,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

## 7 Income tax

|                                      | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| <b>Current tax</b>                   |                         |                         |
| Provision for profits tax            |                         |                         |
| – Hong Kong                          | 127,831                 | 76,729                  |
| – Outside Hong Kong                  | <u>9,445</u>            | <u>30,129</u>           |
|                                      | 137,276                 | 106,858                 |
| <b>Land appreciation tax ("LAT")</b> | 38,599                  | 3,425                   |
| <b>Deferred tax</b>                  | <u>(3,693)</u>          | <u>48,936</u>           |
|                                      | <u>172,182</u>          | <u>159,219</u>          |

The provision for Hong Kong profits tax is calculated at 16.5% (2011 : 16.5%) of the estimated assessable profits for the year. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

Under the Provisional Regulations on LAT in Mainland China, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

## 8 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$1,886,254,000 (2011: HK\$1,526,385,000) and weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2011: 1,150,681,275).

### (b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2012 and 2011.

## 9 Dividends

|  | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Interim dividend declared and paid of HK\$0.21<br>(2011: HK\$0.21) per share                   | 241,643                 | 241,643                 |
| Final dividend proposed after the balance sheet date<br>of HK\$0.36 (2011: HK\$0.33) per share | <u>414,245</u>          | <u>379,725</u>          |
|  | <u><b>655,888</b></u>   | <u><b>621,368</b></u>   |

The final dividend declared after the year end has not been recognised as a liability at 31 December.

## 10 Trade and other receivables

Included in this item are trade receivables (net of impairment losses for bad and doubtful debts) with an ageing analysis as follows :

|                                   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Current                           | <u>803,262</u>          | <u>298,078</u>          |
| Less than 3 months past due       | 13,314                  | 11,430                  |
| 3 months to 6 months past due     | 1,496                   | 756                     |
| More than 6 months past due       | <u>9,208</u>            | <u>7,463</u>            |
| Amounts past due                  | <u>24,018</u>           | <u>19,649</u>           |
| Trade receivables                 | 827,280                 | 317,727                 |
| Utility and other deposits        | 57,271                  | 41,743                  |
| Other receivables and prepayments | <u>208,955</u>          | <u>234,045</u>          |
|                                   | <u><b>1,093,506</b></u> | <u><b>593,515</b></u>   |

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

## 11 Trade and other payables

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

|   | 2012<br><i>HK\$'000</i> | 2011<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Not yet due or on demand                | 698,536                 | 715,615                 |
| Within 3 months                         | 133,986                 | 37,903                  |
| 3 months to 6 months                    | 2,436                   | 130                     |
| More than 6 months                      | <u>28,393</u>           | <u>34,057</u>           |
| Trade payables                          | 863,351                 | 787,705                 |
| Rental and other deposits               | 172,760                 | 72,267                  |
| Other payables and accrued expenses     | 350,863                 | 352,218                 |
| Deposits received on sale of properties | <u>1,214,972</u>        | <u>397,559</u>          |
|   | <u><b>2,601,946</b></u> | <u><b>1,609,749</b></u> |



## FINANCIAL REVIEW

### *Financial resources and bank borrowings*

As at 31 December 2012, the Group's total bank borrowings were HK\$5,870 million, with HK\$1,604 million repayable within one year and HK\$4,266 million repayable after more than one year, showed a slight decrease comparing with 2011 year end. After taking into account cash and cash equivalents of HK\$565 million, the Group's net borrowings position as at 31 December 2012 was HK\$5,305 million, an increase of HK\$122 million as compared with HK\$5,183 million as at 31 December 2011. Loan from/amount payable to the ultimate holding company amounted to HK\$6,509 million as at year end 2012 which showed an increase of HK\$731 million from HK\$5,778 million as at year end 2011.

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) stayed steady at 56.1% as at 31 December 2012 (2011: 55.4%).

During 2012, the Group realised substantial cash inflow from sale/presale proceeds from various development projects in Hong Kong (HK\$1,148 million) and Mainland China (HK\$870 million). The disposal of certain non-core investment properties in Hong Kong contributed a further HK\$209 million cash inflow in 2012.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$1,771 million of construction cost during the year. Furthermore, the Group acquired certain properties for redevelopment in Hong Kong in the amount of HK\$523 million, further expanding the landbank of the Group.

Furthermore, approximately HK\$180 million was invested by the Group in the Tianjin project for the balance payment of land title and land use right which was successfully obtained in May 2012.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and will consider engaging relevant hedging arrangement when appropriate.

With the investments in Mainland China, the Group is exposed to exchange fluctuations in Renminbi ("RMB"). By using external borrowings in RMB together with revenue and cash generated from the development projects in Mainland China, this can serve as a natural hedge against the exchange rate risk of RMB.

In view of the Group's oil business in Kazakhstan owned by our listed subsidiary Polytec Asset, the Group has been exposed to the exchange fluctuations in the Kazakhstan Tenge ("KZT"), the local currency of Kazakhstan. While the majority of the operating expenses, as well as capital expenditure, of the Group's oil business is denominated in the KZT, over 80% of its revenue is denominated in the USD. Due to the currency mismatch between its revenues and expenditures in Kazakhstan, the Group is closely monitoring the fluctuation in the KZT and evaluating the impact on its financial position. The Group will use appropriate currency hedging to minimise the currency risks associated with this business if considered necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflow from sale/presale of the Group's development projects, and the financial support from the ultimate holding company, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

### ***Capital commitments***

As at 31 December 2012, the Group had commitments in connection with the Group's fixed assets amounted to HK\$5 million.

### ***Pledge of assets***

As at 31 December 2012, properties having a value of HK\$11,392 million and bank deposits of HK\$35 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

### ***Contingent liabilities***

The Group has given several guarantees in respect of banking facilities granted to a jointly controlled entity in Mainland China. Guarantees have been provided to the jointly controlled entity amounting to RMB647 million, representing a 50% proportional guarantee in respect of RMB1,294 million term loan facilities. The facilities were utilised to the extent of RMB1,184 million as at 31 December 2012.

## **HUMAN RESOURCES**

As of 31 December 2012, the Group had a total of 796 employees (2011: 734 employees), of which 456 were Hong Kong staff, 134 were PRC staff and 206 were staff in other regions, with the increase in headcount mainly due to matching business growth. During the year, total staff costs increased to HK\$203 million (2011: HK\$162 million) due to salary revision in July 2012 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as performance of individual to attract, motivate and retain talented people.

The Group believes that the quality of its human resources is critical for it to maintain strong competitive edge. The Group has conducted a range of training programs through external institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

Besides, the Group established a recreation club and held annual dinner, Christmas party and monthly working lunch for employees during the year to promote team spirit and loyalty and to share information between departments.

## **OTHER INFORMATION**

### ***Review by Audit Committee***

The Audit Committee of the Company has reviewed and discussed with the independent auditors, KPMG, the consolidated accounts of the Group for the year ended 31 December 2012 including critical accounting policies and practices adopted by the Group.

### ***Compliance with the Corporate Governance Code***

The Company has complied throughout the year with all code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception of code provisions A.2.1 and A.6.7 as explained below:

#### **Code Provision A.2.1**

Mr Or Wai Sheun has performed the combined role as the Chairman and the chief executive taking charge of overall operation. This combining of the roles enables the Company to make prompt and efficient decisions. The Company’s approach to corporate governance emphasizes on the quality of the Board’s governance and accountability to shareholders. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanism for formal review of particular aspect of the Company’s affairs. Important decisions, including those may be expected to affect the long-term shareholder interest, are made by the Board and applicable Board committees.

#### **Code Provision A.6.7**

All Non-executive Directors and Independent Non-executive Directors attended the annual general meeting of the Company held on 28 June 2012 (the “AGM”), other than a Non-executive Director and an Independent Non-executive Director who were unable to attend the AGM as they were overseas at the time.

### ***Purchase, Sale or Redemption of the Company’s Listed Securities***

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2012.

### ***Annual General Meeting***

The 2013 Annual General Meeting of the Company will be held on Wednesday, 26 June 2013. The Notice of Annual General Meeting will be published and dispatched in due course.

### ***Closure of Register of Members***

The register of members of the Company will be closed from Monday, 8 July 2013 to Tuesday, 9 July 2013, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrars, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 pm on Friday, 5 July 2013.

***Publication of Annual Report***

The 2012 Annual Report containing all the information as required by the Listing Rules will be published on the Company's website at [www.kdc.com.hk](http://www.kdc.com.hk) and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about 26 April 2013.

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

Hong Kong, 27 March 2013

*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) 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.*