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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)**

**2011 INTERIM RESULTS ANNOUNCEMENT**

## HIGHLIGHTS

- The Group's 2011 interim net profit amounts to HK$830 million compared to HK$676 million (restated) for the corresponding period of 2010.
- Excluding revaluation gains from the Group's investment properties, the underlying net profit for the first half of 2011 amounts to HK$456 million, an increase of 63.2% over the same period in 2010. The underlying earnings per share for the first six months of 2011 is HK$0.40 compared to HK$0.24 for the first half of 2010.
- Barring unforeseen circumstances, it is expected that the Group's operating results for the full year of 2011 will be satisfactory.
- Interim dividend per share for 2011 amounts to HK$0.21 (2010 : HK$0.20).

## INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2011, the Group's unaudited net profit attributable to shareholders amounted to HK$830 million and basic earnings per share amounted to HK$0.72 compared to HK$676 million (restated) and HK$0.59 (restated) respectively for the corresponding period in 2010.

Excluding revaluation gains from the Group's investment properties, the underlying net profit for the first half of 2011 amounted to HK$456 million, an increase of 63.2% over the same period in 2010. The underlying earnings per share for the first six months of 2011 was HK$0.40 compared to HK$0.24 for the first half of 2010.

The Board of Directors has declared an interim dividend for 2011 of HK$0.21 per share (2010: HK$0.20) payable on 14 October 2011 to shareholders whose names appear on the Register of Members of the Company on 4 October 2011.

# BUSINESS REVIEW

As an effort to curb the accelerating property prices, which may substantially undermine the affordability for a large number of home-buyers, the governments in Hong Kong, Macau and Mainland China have imposed more severe measures on their respective property markets during the first half of the year. Together with worsening investor confidence due to increasing uncertainty over a sustainable global economic recovery, overall residential transaction volumes in the three property markets have recently started to decline. In particular, the residential transactions in those Mainland China cities with implementation of the home purchase restriction policy have fallen considerably. While residential transaction prices for some areas still remain elevated, prices in general have appeared to be suppressed. We have indeed been facing a more challenging environment since the start of the year.

## *Property Sales*

For the first six months of 2011, total operating profit in the property development segment amounted to HK$321 million, which was mainly generated from sales proceeds recognised from various development projects in Hong Kong, Macau and Mainland China.

In Hong Kong, following the completion of Mount East in North Point, we have been gradually delivering the units to the buyers since the end of June this year. The Group has so far sold almost 50% of the project's residential units, with total recognised sales proceeds and net profits of HK$379 million and HK$134 million respectively for the first half of 2011. In addition, the Group sold the last residential unit and the remaining car parking spaces of its development project at 31 Robinson Road, with a gain of HK$88 million.

In Mainland China, for the first half of this year, total sales proceeds of RMB548 million were recognised for The Lake (山語湖), a joint-venture development project of the Group in Foshan, Guangdong Province and the Group's share of net profits amounted to RMB56 million. Additional presales of approximately RMB1.3 billion are expected to be recognised in the second half of 2011 after we obtain the relevant completion certificates.

In addition, we launched the first phase of Le Cove City (江灣城), the Group's wholly-owned residential and commercial development project in Shenyang, Liaoning Province in late last year and we have so far pre-sold a majority of residential units and a portion of retail shops, with total presales proceeds exceeding RMB500 million. A substantial portion of the presales proceeds will likely be recognised in the second half of this year.

In Macau, we have sold a number of retail shops at Pacifica Garden, which is the one of the Group's Macau projects held through our 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), for total sales proceeds exceeding HK$45 million. The project was completed in the first half of 2010.

## *Property Development*

As of 30 June 2011, the Group's land bank for development amounted to approximately 5 million sq m of attributable gross floor area ("GFA") and 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. Site Area (sq m) | Approx. Total GFA (sq m) | Group's Interest | Status | Expected Date of Completion |
|---|---|---|---|---|---|---|---|---|
| **Hong Kong** | | | | | | | | |
| Clear Water Bay Road | Ngau Chi Wan, Kowloon | 35 Clear Water Bay Road | residential & commercial | 19,335 | 196,400 | 100% | Land exchange under process | To be determined |
| Macpherson Stadium | Mongkok, Kowloon | 10 Yim Po Fong Street | stadium, youth centre, residential & commercial | 2,400 | 24,800 | JV with Urban Renewal Authority and Hong Kong Playground Association | Superstructural work in progress | 2012 |
| Sai Yeung Choi Street North | Kowloon | 468-474 Sai Yeung Choi Street North | residential | 1,114 | 8,400 | 100% | Superstructural work in progress | 2012 |
| Belcher's Street | Kennedy Town, Hong Kong | 150-162 Belcher's Street and 1-9 Kwan Yick Street | residential & commercial | 1,318 | 13,200 | 100% | Foundation work completed<br><br>Pile cap in progress | 2013 |
| Pok Fu Lam Road | Southern District, Hong Kong | 49-65A Pok Fu Lam Road | residential | 1,083 | 9,100 | 97.5% | Preparation of building plan in progress | 2013/2014 |
| **Mainland China** | | | | | | | | |
| Le Cove City (江灣城) | Hun Nan Xin District, Shenyang | 6 Hun Nan Er Road | residential & commercial | 171,339 | 579,000 | 100% | Superstructural work for first phase in progress<br><br>First phase of development is expected to be completed in September 2011 | By phases from 2011 onwards |
| The Lake (山語湖) | 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 2010 onwards |
| Shenhe | Shenhe District, Shenyang | West of Daba Road | residential & commercial | 1,100,000 | 2,000,000 | 100% | Superstructural work for first phase in progress | By phases from 2012 onwards |

# The Lake (山語湖) covers total GFA of approximately 1,600,000 sq m, of which a total GFA of approximately170,000 sq m has been recognised as sales upto 30 June 2011

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

| Property Project | District/ City | Location | Usage | Approx. Site Area (sq m) | Approx. Total GFA (sq m) | Group's Interest | Status | Expected Date of Completion |
|---|---|---|---|---|---|---|---|---|
| **Mainland China** | | | | | | | | |
| Hedong | Hedong District, Tianjin | Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road | residential & commercial | 137,940 | 930,000 | 49% | Master layout plan submitted for approval | By phases from 2013 onwads |
| Shiqi | Shiqi District, Zhongshan | 8 Xueyuan Road | residential & commercial | 18,334 | 129,000 | 70% | Superstructural work in progress | 2012/2013 |
| Congan* | Congan District, Wuxi | Tongyun Road and Gongyun Road | residential & commercial | 68,833 | 404,400 | 80% | Superstructural work for first phase in progress | By phases from 2013 onwards |
| **Macau** | | | | | | | | |
| Pearl Horizon (海一居) | Novos Aterros da Areia Preta | The Orient Pearl District | residential & commercial | 68,000 | 699,700 | 58.8% | Building plan has been approved | By phases from 2014 onwards |
| Lotes T and T1 | Novos Aterros da Areia Preta | The Orient Pearl District | residential & commercial | 17,900 | 208,400 | 58.8% | Building plan has been approved | 2015/2016 |

* Acquired by the Group after 30 June 2011

## *Property Investment*

During the first six months of 2011, the Group disposed of a number of retail spaces at New Mandarin Plaza in Tsim Sha Tsui, one of the Group's non-core investment properties in Hong Kong, with a total recognised gain of HK$87 million. In addition, the Group also disposed of a number of retail spaces at Va Iong, the investment properties being owned through Polytec Asset in Macau, with a total gain before tax of HK$45 million. The Group intends to continue to dispose of the remaining non-core investment properties in both Hong Kong and Macau.

Despite the disposal of the above investment properties, for the first half of the year, the Group's gross rental income from its property investment portfolio rose to HK$147 million, an increase of 8.4% over the same period in 2010. More encouragingly, gross rental income from Pioneer Centre, the Group's flagship investment property in Hong Kong, rose to HK$120 million in the first half of 2011, a rise of 11.4% over the corresponding period in 2010, with almost all offices and retail spaces being fully let as of end-June 2011.

The retail market in Hong Kong has remained robust over the first six months of 2011 after a strong rebound last year, with retail sales rising over 24% following an increase of 18% in 2010. The continued rise in retail spending, supported principally by Mainland China tourists, has led to a surge in demand for retail spaces and therefore the Group continued to record strong rental growth rates for both renewal and new letting transactions during the first half of 2011.

## *Finance and Investments*

As of 30 June 2011, total remaining value of the Group's financial investment portfolio amounted to HK$121 million compared to HK$134 million at end-December 2010. The existing portfolio includes largely long-term investment funds and bonds, which have been owned for more than two years. For the first six months of 2011, the finance and investments segment contributed HK$11 million to the Group's operating profit.

## *Oil Business*

For the first six months of 2011, total revenue generated from the oil segment amounted to HK$27 million. The segment recorded an operating loss of HK$29 million. The loss in operation for the period under review was mainly attributable to a temporary suspension of oil production in the first three months of the year, pending the obtaining of a gas flaring permit for the Group's South Alibek Oilfield. While we resumed oil production in April, it takes time for the overall production to return to the normal levels and therefore our cashflows and earnings from the segment may still be affected in the short term. We believe that our oilfield, the South Alibek Oilfield, which is located in the oil and gas rich Pre-Caspian Basin in Kazakhstan and is still in an early stage of development, has good chances of finding more oil and we have accordingly started a series of drilling programs.

## *Property Management*

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As of end-June 2011, the total area of properties under management was maintained at approximately 1.1 million sq m.

## *Post Balance Sheet Events*

As announced on 13 May 2011, the Company had entered into an acquisition agreement with a subsidiary of Polytec Holdings International Limited, the ultimate holding company of the Group pursuant to which the Company agreed to purchase 80% interest in the issued share capital of Ideaplan Investments Limited ("Ideaplan") together with the assignment of the sale loan for an aggregate consideration of HK$1,319,651,404. Ideaplan owns a Wuxi property (the "Wuxi Property") located in the central business district of Wuxi, Jiangsu Province. The Wuxi Property comprises five connected composite use sites with a total site area of 51,437 sq m, and will be developed into a gross floor area of approximately 308,600 sq m (above ground). The acquisition was completed on 6 July 2011.

Furthermore, on 19 August 2011, the Group has successfully obtained through a public auction a site adjacent to the above Wuxi Property with a total site area of 17,396 sq m and a developable gross floor area of approximately 95,800 sq m (above ground), at a total consideration of RMB580 million.

The Group intends to merge the two sites and develop them into a residential, commercial, hotel and office complex, with a combined site area and gross floor area of 68,833 sq m and approximately 404,400 sq m (above ground) respectively.

## PROSPECTS

Following the downgrade of US credit ratings in early August and the on-going debt problems in Europe, the uncertainty over the outlook for the global economy has been mounting. Indeed, the current debt crisis will unlikely be permanently resolved unless the governments in the major developed countries, especially in the US and Europe, are determined to substantially reduce their respective debt levels as their imprudent fiscal policies of the past decades, including over-expansion of their social benefits, have led to the current unsustainable debt burdens in these countries. Therefore, it is expected that the US and many countries in the European Union will further tighten their fiscal policies or implement austerity measures in order for them to return to more sustainable fiscal paths in the next few years. There is a general consensus that these major developed countries with fiscal tightening policies will be in a period of low-growth in the next few quarters and if the relevant governments do not initiate appropriate measures to effectively stimulate their respective economies, the risk of a global economic recession or stagnation will rise.

While the three economies in the Greater China region, Mainland China, Hong Kong and Macau, have still posted relatively strong growth rates during the first half of the year, they have also been facing accelerating inflationary pressures. With fears of property bubbles emerging, these governments have imposed more severe property measures over the first six months of the year. These property restrictive measures will likely suppress potential buyers' appetite in the short term. Over the medium- and long- term, we remain optimistic about the outlook for the three economies and therefore their respective property markets. With a healthy gearing ratio and sizeable landbank, we are well positioned in all three markets. We are expediting the pace of our project development and targeting more project completion in the coming years.

In Mainland China, we acquired an 80% stake in a development project in Wuxi, Jiangsu Province from our controlling shareholder in July. As the first phase of the project is currently under construction, the acquisition of this project has saved the Group substantial time for clearing up the site and avoided potential risks and uncertainties associated with the project. The site is situated in the Congan District, a central business district of Wuxi, with an aggregate site area of over 51,400 sq m. In mid-August, the Group obtained a site adjacent to the above site through a public auction, with a total site area of approximately 17,400 sq m. We plan to merge two sites and the combined site is intended to be developed by phases into a residential, commercial, hotel and office complex, with a gross floor area of exceeding 404,400 sq m (above ground). As our aim to gradually increase overall gross rental income for the Group, the complex will comprise a mega shopping mall, which will be added to its existing investment property portfolio, with a gross floor area of over 100,000 sq m. We expect to start the presale of the first phase of the residential portion in the fourth quarter this year.

In Shenyang, the presale of the first phase of Le Cove City (江灣城), the Group's first wholly-owned development site in Mainland China which launched in the fourth quarter last year, has been well received by the market. Despite the restrictive property measures, we have sold a majority of residential units in the first phase of development, with total sales proceeds so far exceeding RMB500 million and a large portion of the sales is likely to be recognised in the second half of this year. The Group plans to launch the presale of the Shenhe project in Shenyang and the Shiqi project in Zhongshan later this year.

In Hong Kong, we have actively been procuring additional landbank for the Group. In July, we acquired an over 80% effective share of a residential and commercial re-development project in Hung Hom, Kowloon. We are in progress to acquire the remaining units of the project, which would form an aggregate site area of 4,038 sq m and it is intended to be developed into a gross floor area of approximately 33,900 sq m. It is expected that the Group will launch the presale of its two development projects, the Belcher's Street project and the Sai Yeung Choi Street North project, within the next 12 months.

In Macau, we are preparing for a formal launch of the presale of Pearl Horizon (海一居), the Group's luxury residential and commercial development project in Lote P of the Orient Pearl District, Macau. This large-scale development project covers an aggregate gross floor area of approximately 700,000 sq m, comprising over 5,000 luxury residential units, a sizeable shopping arcade, a five-star clubhouse as well as over 4,000 car parking spaces. This mega project will be developed in phases in the coming years and we are confident that it will provide substantial cashflows and continuing earnings for the Group during the completion period.

For the second half of 2011, the Group's core earnings will likely be generated from the recognition of the presales proceeds from The Lake (山語湖) in Foshan and Le Cove City (江灣城) in Shenyang. Barring unforeseen circumstances, it is expected that the Group's operating results for the full year of 2011 will be satisfactory.

## INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2011 together with the comparative figures of 2010 are as follows.

**Consolidated Income Statement**

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2011** | 2010 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| | | ***(unaudited)*** | *(unaudited)* |
| | | | *(restated)* |
| **Turnover** | *3* | **651,604** | 950,938 |
| Cost of sales | | **(256,668)** | (682,067) |
| Other revenue | | **8,976** | 19,393 |
| Other net income | *4* | **213,625** | 16,882 |
| Depreciation and amortisation | | **(5,779)** | (5,494) |
| Staff costs | | **(68,375)** | (45,460) |
| Other operating expenses | | **(90,189)** | (40,969) |
| Impairment loss on properties written back | | **-** | 154,770 |
| Fair value changes on investment properties | | **296,310** | 396,506 |
| **Profit from operations** | | **749,504** | 764,499 |
| Finance costs | *5* | **(17,891)** | (5,884) |
| Share of profits of associated companies | | **169** | 1,308 |
| Share of profits of jointly controlled entities | | **190,139** | 11,329 |
| **Profit before taxation** | | **921,921** | 771,252 |
| Income tax | *6* | **(43,174)** | (44,185) |
| **Profit for the period** | | **878,747** | 727,067 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **829,988** | 675,901 |
| Non-controlling interests | | **48,759** | 51,166 |
| **Profit for the period** | | **878,747** | 727,067 |
| **Earnings per share - Basic/Diluted** | *7* | **HK$0.72** | HK$0.59 |

## Consolidated Statement of Comprehensive Income

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| | | *(restated)* |
| **Profit for the period** | **878,747** | 727,067 |
| **Other comprehensive income for the period** | | |
| Exchange differences on translation of accounts of overseas subsidiaries | **47,353** | 20,620 |
| Changes in fair value of available-for-sale investments | **2,147** | (312) |
| Changes in fair value of interests in property development | **12,942** | - |
| Share of other comprehensive income of jointly controlled entities and associated companies | **59,898** | 19,978 |
| Transfer to income statement upon disposal of a subsidiary | **(481)** | - |
| | **121,859** | 40,286 |
| **Total comprehensive income for the period** | **1,000,606** | 767,353 |
| **Attributable to:** | | |
| Shareholders of the Company | **947,862** | 714,934 |
| Non-controlling interests | **52,744** | 52,419 |
| **Total comprehensive income for the period** | **1,000,606** | 767,353 |

## Consolidated Balance Sheet

| | Note | At 30 June 2011 | | At 31 December 2010 | |
|---|---|---|---|---|---|
| | | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| | | ***(unaudited)*** | ***(unaudited)*** | *(audited)* | *(audited)* |
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| - Investment properties | | | **7,536,590** | | 7,411,650 |
| - Leasehold land held for own use | | | **232,265** | | 235,568 |
| - Other property, plant and equipment | | | **1,153,801** | | 1,106,773 |
| | | | **8,922,656** | | 8,753,991 |
| Oil exploitation assets | | | **122,088** | | 123,144 |
| Interests in property development | | | **10,186,346** | | 10,173,404 |
| Interest in jointly controlled entities | | | **1,752,479** | | 1,541,645 |
| Interest in associated companies | | | **1,918,685** | | 1,675,361 |
| Financial investments | | | **22,788** | | 29,346 |
| Loans and advances | | | **2,138** | | 3,717 |
| Other deposit | | | **-** | | 2,527 |
| Deferred tax assets | | | **6,735** | | 7,464 |
| | | | **22,933,915** | | 22,310,599 |
| **Current assets** | | | | | |
| Inventories | | **8,689,239** | | 7,487,859 | |
| Trade and other receivables | *9* | **798,153** | | 185,212 | |
| Loans and advances | | **21,476** | | 19,043 | |
| Amounts due from jointly controlled entities | | **140,745** | | 154,278 | |
| Financial investments | | **98,252** | | 104,594 | |
| Time deposits (pledged) | | **15,000** | | 15,000 | |
| Cash and cash equivalents | | **735,645** | | 719,684 | |
| | | **10,498,510** | | 8,685,670 | |

| | Note | At 30 June 2011<br>HK$'000<br>(unaudited) | <br>HK$'000<br>(unaudited) | At 31 December 2010<br>HK$'000<br>(audited) | <br>HK$'000<br>(audited) |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Trade and other payables | *10* | **1,536,414** | | 1,273,187 | |
| Amount due to a jointly controlled entity | | **566,532** | | 554,448 | |
| Bank loans | | **1,242,500** | | 3,855,500 | |
| Current taxation | | **340,821** | | 298,465 | |
| | | **3,686,267** | | 5,981,600 | |
| **Net current assets** | | | **6,812,243** | | 2,704,070 |
| **Total assets less current liabilities** | | | **29,746,158** | | 25,014,669 |
| **Non-current liabilities** | | | | | |
| Loan from ultimate holding company | | **1,750,699** | | 896,569 | |
| Amount payable to ultimate holding company | | **881,605** | | 627,901 | |
| Bank loans | | **4,678,701** | | 1,660,447 | |
| Other payables | | **46,981** | | 46,872 | |
| Deferred tax liabilities | | **295,528** | | 303,170 | |
| | | | **7,653,514** | | 3,534,959 |
| **Net assets** | | | **22,092,644** | | 21,479,710 |
| **Capital and reserves** | | | | | |
| Share capital | | | **115,068** | | 115,068 |
| Reserves | | | **19,052,899** | | 18,473,255 |
| **Total equity attributable to the shareholders of the Company** | | | **19,167,967** | | 18,588,323 |
| **Non-controlling interests** | | | **2,924,677** | | 2,891,387 |
| **Total equity** | | | **22,092,644** | | 21,479,710 |

*Notes*

## 1 Basis of preparation

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2011 annual accounts. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## 2 Changes in accounting policies

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Financial Reporting Standards, HKASs and Interpretations), and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's interim financial report:

- HKAS 24 (revised 2009), "Related party disclosures"
- Improvements to HKFRSs (2010)

These developments related primarily to clarification of certain disclosure requirements applicable to the Group's accounts and have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, "Income taxes", in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, "Investment property". The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has already early adopted the amendments for the year ended 31 December 2010.

As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefit embodied in the property over time, rather than through sale. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively, with consequential adjustments to comparatives for the six months ended 30 June 2010. This has resulted in a reduction in the amount of deferred tax provided on valuation gain in respect of certain investment properties of the Group. The effects are shown as follows:

| | As previously reported *HK$'000* | Effect of adoption of amendments to HKAS 12 *HK$'000* | As restated *HK$'000* |
|---|---|---|---|
| **Consolidated income statement for the six months ended 30 June 2010:** | | | |
| Income tax | 110,511 | (66,326) | 44,185 |
| Profit for the period | 660,741 | 66,326 | 727,067 |
| | | | |
| Profit attributable to: | | | |
| Shareholders of the Company | 609,575 | 66,326 | 675,901 |
| Earnings per share - Basic/Diluted | HK$0.53 | HK$0.06 | HK$0.59 |

## 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 seven reportable segments.

- Property development segment (Hong Kong/Macau/Mainland China) : 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.

- Finance and investments segment : the financial investments and the provision of finance services.

- Oil segment: oil exploration and production.

- Other businesses segment : mainly includes 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 and held for trading investments, income from interests in property development, 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.

## 3 Segment reporting *(continued)*

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 period is set out below.

| | Six months ended 30 June 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Property development | | | | | | |
| | Consolidated | Hong Kong | Macau | Mainland China | Property investment | Finance and investments | Oil | Others |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **651,604** | **380,631** | **48,102** | **-** | **146,645** | **18,357** | **27,333** | **30,536** |
| Reportable segment profit | **465,989** | **241,276** | **33,863** | **45,717** | **156,244** | **10,735** | **(29,123)** | **7,277** |
| Other net income | **131,878** | **-** | **-** | **-** | **131,878** | **-** | **-** | **-** |
| Fair value changes on investment properties | **296,310** | **-** | **-** | **-** | **296,310** | **-** | **-** | **-** |
| Share of fair value changes on investment properties of a jointly controlled entity | **106,040** | **-** | **-** | **-** | **106,040** | **-** | **-** | **-** |
| Head office and corporate expenses | **(60,405)** | | | | | | | |
| Finance costs | **(17,891)** | | | | | | | |
| Profit before taxation | **921,921** | | | | | | | |
| Share of profits of associated companies | **169** | **-** | **-** | **(597)** | **-** | **-** | **-** | **766** |
| Share of profits of jointly controlled entities | **190,139** | **-** | **-** | **67,589** | **122,550** | **-** | **-** | **-** |

## 3 Segment reporting *(continued)*

| | Six months ended 30 June 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated | Hong Kong | Macau | Mainland China | Property investment | Finance and investments | Others |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 950,938 | 1,410 | 775,649 | - | 135,279 | 12,210 | 26,390 |
| Reportable segment profit | 414,289 | 158,631 | 95,083 | (2,573) | 138,166 | 19,403 | 5,579 |
| Other net income | 9,826 | - | - | - | 9,826 | - | - |
| Fair value changes on investment properties | 396,506 | - | - | - | 396,506 | - | - |
| Head office and corporate expenses | (43,485) | | | | | | |
| Finance costs | (5,884) | | | | | | |
| Profit before taxation | 771,252 | | | | | | |
| Share of profits of associated companies | 1,308 | - | - | - | - | - | 1,308 |
| Share of profits of jointly controlled entities | 11,329 | - | - | 196 | 11,133 | - | - |
| Impairment loss on properties written back | 154,770 | 154,770 | - | - | - | - | - |

| | **At 30 June 2011** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Property development** | | | | | | |
| | **Consolidated** | **Hong Kong** | **Macau** | **Mainland China** | **Property investment** | **Finance and investments** | **Oil** | **Others** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Reportable segment assets | **32,659,918** | **5,333,135** | **10,280,565** | **6,894,195** | **8,440,406** | **152,858** | **1,274,643** | **284,116** |
| Deferred tax assets | **6,735** | | | | | | | |
| Time deposits (pledged) | **15,000** | | | | | | | |
| Cash and cash equivalents | **735,645** | | | | | | | |
| Head office and corporate assets | **15,127** | | | | | | | |
| Consolidated total assets | **33,432,425** | | | | | | | |
| Interest in associated companies | **1,918,685** | **-** | **-** | **1,909,662** | **-** | **-** | **-** | **9,023** |
| Interest in and amounts due from jointly controlled entities | **1,893,224** | **-** | **-** | **1,203,971** | **689,253** | **-** | **-** | **-** |

**3 Segment reporting *(continued)***

| | At 31 December 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Property development | | | | | | |
| | Consolidated | Hong Kong | Macau | Mainland China | Property investment | Finance and investments | Oil | Others |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Reportable segment assets | 30,234,331 | 4,255,834 | 10,285,205 | 6,026,766 | 8,002,462 | 164,000 | 1,220,557 | 279,507 |
| Deferred tax assets | 7,464 | | | | | | | |
| Time deposits (pledged) | 15,000 | | | | | | | |
| Cash and cash equivalents | 719,684 | | | | | | | |
| Head office and corporate assets | 19,790 | | | | | | | |
| Consolidated total assets | 30,996,269 | | | | | | | |
| Interest in associated companies | 1,675,361 | - | - | 1,667,105 | - | - | - | 8,256 |
| Interest in and amounts due from jointly controlled entities | 1,695,923 | - | - | 1,111,899 | 584,024 | - | - | - |

**4 Other net income**

Other net income represents a net gain on disposal of investment properties of HK$131,878,000 (six months ended 30 June 2010: HK$9,826,000), a net gain of HK$88,089,000 (six months ended 30 June 2010: Nil) in relation to the disposal of a subsidiary engaged in property development and fair value changes on held for trading listed investments of loss of HK$6,342,000 (six months ended 30 June 2010 : gain of HK$7,056,000).

**5 Finance costs**

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans and overdrafts | **41,151** | 26,585 |
| Interest on loan from/amount payable to ultimate holding company | **8,809** | 3,187 |
| Less : Amount capitalised | **(32,069)** | (23,888) |
| | **17,891** | 5,884 |

## 6 Income tax

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| | | *(restated)* |
| **Current tax** | | |
| Provision for profits tax | | |
| - Hong Kong | **35,494** | 15,778 |
| - Outside Hong Kong | **14,594** | 47,232 |
| | **50,088** | 63,010 |
| **Deferred tax** | **(6,914)** | (18,825) |
| | **43,174** | 44,185 |

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2010 : 16.5%) of the estimated assessable profits for the six months ended 30 June 2011. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate rates of taxation currently ruling in relevant jurisdictions.

## 7 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$829,988,000 (six months ended 30 June 2010 (restated) : HK$675,901,000) and weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2010 : 1,150,681,275).

### (b) Diluted earnings per share

There are no diluted potential shares in existence during the six months ended 30 June 2011 and 2010.

## 8 Dividends

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | ***HK$'000*** | *HK$'000* |
| Interim dividend declared after the interim period of HK$0.21 (six months ended 30 June 2010 : HK$0.20) per share | **241,643** | 230,136 |

The interim dividend declared after the interim period has not been recognised as a liability at the interim period end date.

## 9 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 :

| | **At 30 June 2011** | At 31 December 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **232,220** | 53,538 |
| Less than 3 months past due | **13,674** | 5,354 |
| 3 months to 6 months past due | **932** | 435 |
| More than 6 months past due | **6,130** | 10,065 |
| Amounts past due | **20,736** | 15,854 |
| Trade receivables | **252,956** | 69,392 |
| Utility and other deposits | **35,675** | 7,906 |
| Other receivables and prepayments | **509,522** | 107,914 |
| | **798,153** | 185,212 |

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 the receivables.

As at 30 June 2011, other receivables and prepayments included an amount of HK$195,196,000 being receivables from disposal of investment properties and an amount of HK$131,965,000 being payment made in respect of acquisition of subsidiaries.

## 10 Trade and other payables

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

| | **At 30 June 2011** | At 31 December 2010 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not yet due or on demand | **164,917** | 132,551 |
| Within 3 months | **15,620** | 42,937 |
| 3 months to 6 months | **27** | 506 |
| More than 6 months | **33,444** | 32,768 |
| Trade payables | **214,008** | 208,762 |
| Rental and other deposits | **68,653** | 64,798 |
| Other payables and accrued expenses | **798,243** | 535,177 |
| Deposits received on sale of properties | **455,510** | 464,450 |
| | **1,536,414** | 1,273,187 |

**11 Restatement of comparatives**

As a result of the adoption of the amendments to HKAS 12, "Income taxes", certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties carried at fair value. Further details of these changes in accounting policies are disclosed in note 2.

# FINANCIAL REVIEW

## *Financial Resources and Bank Borrowings*

As at 30 June 2011, the Group's total bank borrowings amounted to HK$5,921 million, with HK$1,242 million repayable within one year and HK$4,679 million repayable beyond one year. The net borrowings position of the Group as at 30 June 2011 amounted to HK$5,185 million after taking into account cash and cash equivalents of HK$736 million, an increase of HK$389 million as compared with the net borrowings of HK$4,796 million as at 31 December 2010. At the same time, the loan from/amount payable to the ultimate holding company amounted to HK$2,632 million as at 30 June 2011 which represented an increase of HK$1,108 million from HK$1,524 million as of year end 2010.

The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to shareholders of the Company) was 40.8% as at 30 June 2011 as compared with 34.0% at year end 2010.

During the period ended 30 June 2011, the Group's development projects in Hong Kong, Mainland China and Macau generated approximately HK$75 million, HK$141 million and HK$45 million cash inflow respectively. This cash inflow related to sales and presale proceeds from Mount East in Hong Kong, Le Cove City in Hun Nan Xin District, Shenyang and Pacifica Garden in Macau. Moreover, the disposal of certain non-core investment properties in Hong Kong and Macau generated cash of approximately HK$113 million whereas the disposal of the remaining duplex and carparks at 31 Robinson Road contributed a further HK$93 million during the period under review.

An additional approximately HK$204 million was invested by the Group in the Tianjin project for the period under review. Acquisition of old properties for redevelopment amounting to HK$952 million was paid. Construction costs paid in respect of the Group's development projects amounted to approximately HK$565 million. The Group paid approximately HK$132 million in relation to the acquisition of the Wuxi development project from the ultimate holding company.

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.

The Group is exposed to exchange rate fluctuations on Renminbi ("RMB") with its investments in Mainland China. External borrowings in RMB together with revenue generated from the development projects in Mainland China will serve as a natural hedge against the exchange rate risk of RMB.

Due to the Group's oil business in Kazakhstan through 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 generated from this segment is denominated in the USD. However, this business represents a relatively small portion of the Group's overall business and therefore the fluctuation in the KZT is unlikely to substantially affect the Group's financial position.

With the financing facilities in place, recurrent rental income from investment properties, cash inflow from presale/ sale 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 30 June 2011, in connection with the Group's investment properties, the Group had commitments for construction work which amounted to HK$144 million. Moreover, the Group had commitments amounted to HK$1,188 million for the acquisition of equity interest of subsidiaries related to Wuxi development project.

### *Pledge of Assets*

As at the balance sheet date, properties having a value of HK$9,844 million and time deposits of HK$15 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. One guarantee is provided on a joint and several basis in the amount of RMB80 million. The joint venture partner and the Group have signed a mutual indemnification agreement by which each will be indemnified by the other on a 50:50 basis for any loss arising from the guarantee. The related banking facility was fully utilised in the amount of RMB80 million as at 30 June 2011. The other remaining guarantees amounted to RMB486 million, representing a 50% proportional guarantee in respect of RMB972 million term loan facilities. The facilities were utilised to the extent of RMB712 million as at 30 June 2011.

## OTHER INFORMATION

### *Review of Interim Results*

The Audit Committee of the Company has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2011. The Group's independent auditors, KPMG, have carried out a review of the interim financial statements in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

***Compliance with the Code on Corporate Governance Practices***

During the six months ended 30 June 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except the code provision A.2.1 (which recommends the roles of the Chairman and chief executive officer should be separate) as disclosed in the 2010 Annual Report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2011.

***Closure of Register of Members***

The register of members of the Company will be closed on Monday, 3 October 2011 to Tuesday, 4 October 2011, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the interim 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, 30 September 2011.

***Publication of Interim Report***

The 2011 Interim Report containing all the information as required by the Listing Rules will be published on the Company's website at 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 September 2011.

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

Hong Kong, 29 August 2011

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