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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)

2010 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS



Group's 2010 interim net profit amounts to HK\$610 million compared to HK\$887 million for the corresponding period of 2009.



Excluding revaluation gains from the Group's investment properties net of deferred tax, underlying net profit and earnings per share for the first half of 2010 amounts to HK\$278 million and HK\$0.24 respectively compared to HK\$883 million and HK\$0.77 respectively for the corresponding period of 2009.



Barring unforeseen circumstances, the Group is expected to report good results for the full year of 2010.



Interim dividend per share for 2010 amounts to HK\$0.20 (2009 : HK\$0.20)

INTERIM RESULTS AND DIVIDEND

The Group's unaudited net profit attributable to shareholders for the six months ended 30 June 2010 amounted to HK\$610 million and earnings per share amounted to HK\$0.53 compared to HK\$887 million and HK\$0.77 respectively for the corresponding period of 2009.

Excluding revaluation gains from the Group's investment properties net of deferred tax, underlying net profit was HK\$278 million for the first half of 2010, representing a decrease of 68.5 % over the corresponding period in 2009. The underlying earnings per share was HK\$0.24 for the first six months of 2010 compared to HK\$0.77 over the same period last year.

The Board of Directors has declared an interim dividend for 2010 of HK\$0.20 per share (2009: HK\$0.20) payable on 15 October 2010 to shareholders whose names appear on the Register of Members of the Company on 6 October 2010.

BUSINESS REVIEW

The overall economic activity in the Greater China region has largely picked up from the 2008 financial crisis, with the three economies growing at robust rates during the first half of the year. With interest rates remaining at historic-low levels in most parts of the world since the crisis, overall property prices in all three economies of Hong Kong, Macau and Mainland China have been rising rapidly over the past year.

In view of the recent surge in commercial property prices in Hong Kong, Management has decided to start consolidating the Group's investment property portfolio and indeed the Group has started disposing of certain non-core investment properties since May 2010.

Property Sales

During the period under review, total operating profit generated from property development projects amounted to HK\$251 million compared to HK\$957 million over the same period last year. The significant decrease in this segment's operating earnings is mainly due to timing differences in booking profits.

In Mainland China, the Group launched the pre-sale of residential units of its 50%-owned project in Foshan (Guangdong Province) in the second quarter of last year, with total pre-sale proceeds from the first phase of residential development already exceeding RMB 2 billion. It is expected that a portion of the pre-sales and the corresponding profits will be recognized in the second half of 2010 upon delivery of the residential units to the purchasers.

In Hong Kong, the soft launch of Mount East, the Group's luxury residential project in North Point, took place in the second half of last year and it has been well received by the market with approximately 30% of a total of 74 residential units being pre-sold. We will formally launch the project later in 2010 and it is expected that the corresponding profit will be recognized by the Group upon its completion in 2011.

In Macau, we have pre-sold 100% of the residential units of Pacifica Garden and over 60% of carparking spaces of the project. The occupation permit of the project was obtained in May this year and we have gradually handed over the residential units to the purchasers. The remaining carparking spaces and retail spaces of the project will be put up for sale at an appropriate time.

Property Development

As at 30 June 2010, the Group's land bank for development amounted to approximately 5 million sq m of attributable gross floor area. The Group's major development projects are set out as follows:

Hong Kong

▶ *Ngau Chi Wan, Kowloon*

This site is located at No. 35 Clear Water Bay Road in Ngau Chi Wan. This development project is wholly owned by the Group and it has obtained planning approvals for a residential and commercial development with a gross floor area of 196,400 sq m, including a shopping arcade, club house and parking facilities. The land premium is under negotiation with the government.

▶ *Macpherson Stadium, Kowloon*

The site is located in a prime location of Mongkok. This is a joint venture residential and commercial redevelopment project with Urban Renewal Authority and Hong Kong Playground Association. It will be developed into a luxury residential and commercial complex with club house and parking facilities, retail spaces, a multi-purpose sports stadium and a youth centre. Excluding the multi-purpose sports stadium and a youth centre, the total gross floor area for the residential and commercial portion is approximately 19,000 sq m. Basement excavation and pile cap work are nearly completed and superstructure work will be commenced shortly.

▶ *Sai Yeung Choi Street North, Kowloon*

The site is located at Nos. 468-474 Sai Yeung Choi Street North. This residential redevelopment project is wholly-owned by the Group, with a gross floor area of approximately 8,400 sq m. It will be re-developed into a modern high-rise residential tower with club house and parking facilities. Foundation work is expected to be completed by end-2010.

▶ *Mount East, Ming Yuen Western Street, Hong Kong*

The site is located at Nos. 24-32 Ming Yuen Western Street in North Point. This residential project is wholly owned by the Group, with a gross floor area of approximately 5,700 sq m. It will be developed into a luxury residential tower, comprising 74 residential units, retail spaces on ground floor, recreational facilities and a club house with sky garden. It is anticipated that the project will be completed by mid-2011.

▶ *Belcher's Street, Hong Kong*

This site is located at Nos.150-162 Belcher's Street, which is close to a proposed Kennedy Town MTR station exit. With the original site area of only 564 sq m, the Group is seeking to acquire adjacent old buildings to form a more sizeable development.

Mainland China

▶ *Shenhe District, Shenyang*

This site is located on the west side of Daba Road of the Shenhe district, which is one of the five main central districts in Shenyang. Previously the site was situated in the Dongling district, which was integrated into the Shenhe district in March this year. This residential and commercial project is wholly owned by the Group, with a planned gross floor area of approximately 2,000,000 sq m. It will be developed into low and medium density residential

units by phases. Foundation work for the first phase has been commenced and it is scheduled to be completed by end-2011.

► ***Hun Nan Xin District, Shenyang***

The site is located along the Hun River on Hun Nan Er Road of the Hun Nan Xin District in Shenyang. This development project is wholly owned by the Group, with a planned gross floor area of approximately 579,000 sq m. It will be developed into a residential and commercial complex. According to the overall planning and development strategy of the local municipal government, the Hun Nan Xin District will be developed into a modern technological new district with a high-tech industrial development zone, a high-grade commercial and business centre, a high-quality residential area, a university town and a Hun River tourism zone. Superstructural work of the first phase residential development, with a gross floor area of approximately 116,000 sq m, is in progress and it is targeted to be completed by 2011. Pre-sale of the first phase will likely be commenced in the fourth quarter of 2010. The development plan for the second phase, with a gross floor area of approximately 100,000 sq m, is in progress and the construction work will be commenced in due course.

► ***Nanhai District, Foshan***

The site is located in the Nanhai District of Foshan (Guangdong Province), with a sizable site area of approximately 4,000,000 sq m. This is a 50:50 joint venture residential and commercial development project with CITIC Property Group. This site is endowed with unique geographical advantages, surrounded by lakes, wetland nature reserve zone and woods. It will be developed into one of the most emblematic residential communities in Foshan, with an aggregate gross floor area of approximately 1,600,000 sq m. The first phase of development comprises mainly luxury low-rise residential houses.

► ***Hedong District, Tianjin***

The site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group, with a gross floor area of approximately 930,000 sq m. It will be developed into a residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade. The master layout plan has been submitted to the local authority and construction work will be commenced once we have obtained necessary approvals.

► ***Shiqi District, Zhongshan***

The site is located in the Shiqi District, one of the most prestigious residential areas in Zhongshan (Guangdong Province). This residential and commercial project is 70% owned by the Group, with gross floor area of approximately 129,000 sq m. It will comprise 7 high-end towers with 1,150 residential units, a club house and retail shops. Foundation work has just been completed and superstructure work will be commenced shortly.

Macau

The Group's property interest in Macau is held through Polytec Asset Holdings Limited ("Polytec Asset"), a 73.44% owned subsidiary of the Company. Current development projects are set out as follows:

► ***Lote P, The Orient Pearl District***

Lote P is located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with an aggregate site area of approximately 68,000 sq m. Polytec Asset has an 80% interest in this project. It will be developed by phases into various luxury residential towers, together with a large shopping arcade, a five-star club house and numerous car parking spaces, with an aggregate gross floor area of approximately 699,700 sq m. The master plan of the development has been approved and the building plan has been submitted to the relevant government authorities for approval.

► ***Lotes T & T1, The Orient Pearl District***

Lotes T & T1 are located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with combined aggregate site area of approximately 17,900 sq m. Polytec Asset has an 80% interest in this project. This project will be developed into a number of high-end residential blocks with retail shops and car parking spaces, with an aggregate gross floor area of approximately 191,600 sq m. The master plan has been approved and the building plan has been submitted to relevant government authorities for approval.

Property Investment

For the first six months of 2010, the Group's gross rental income generated from its property investment portfolio amounted to HK\$135 million, a slight decrease of approximately HK\$0.2 million over the same period last year. The small decrease in gross rental income was mainly due to the start of the revamp project for the second floor of the Group's flagship investment property, Pioneer Center, since March this year. In the short term, the revamp work may restrain the Group's rental income growth. However, the repositioning of the second floor of the mall into a hub of high-tech and digital products in the area is only the Group's first move towards to a broader and longer-term strategy of enhancing the value of the whole mall. The overall occupancy rate of Pioneer Centre was 98.9% as of end-June 2010.

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 2010, the area under management was maintained at approximately 1,092,000 sq m.

Finance and Investments

As mentioned in its 2009 Annual Report in March, the Group intended to cease all non-strategic financial investment activities, with no new investment commitments in this segment for the period under review. As of 30 June 2010, total remaining value of the Group's investment portfolio only amounted to HK\$114 million, representing an insignificant portion of 0.4% of the Group's total

gross asset value. The existing portfolio includes largely long-term investment funds and bonds, which have been owned for years and they will be either held to maturities or sold at appropriate prices. For the first six months of 2010, the finance and investments segment contributed HK\$19 million to the Group's operating profit.

Post Balance Sheet Event

As announced on 7 April 2010, Polytec Asset had exercised an option to acquire Caspi Neft TME, a company principally engaged in the business of the production and exploration of oil from hydrocarbon deposits in Kazakhstan, from Ufex Advisors Corp. and had entered into a sale and purchase agreement and loan assignment agreement on 1 April 2010 in relation to the acquisition of (i) the entire issued share capital of Caspi Neft TME and (ii) all the outstanding debts owed by Caspi Neft TME to Ufex Advisors Corp. at total cash consideration of US\$100 million and US\$39.6 million respectively. The acquisition was completed in July 2010.

PROSPECTS

It appears that the global economy is, on balance, recovering from the 2008 financial crisis, with many countries reporting growth in GDP in the past two to three quarters. This is particularly true in emerging market economies including China, which have largely avoided the crisis. Indeed China's recent dynamic economic performance has caused the Chinese authorities to introduce a number of measures to slow the pace of rising residential property prices.

The Group's property development business in Mainland China has benefited substantially from China's economic success. At the same time, its strong economic growth also supports the economies of Hong Kong and Macau. Moreover, Hong Kong and Macau currently have the additional advantage of lower interest rates than pertain in Mainland China resulting from the HKD's link to the USD and therefore to USD interest rates. Because of this additional factor, Hong Kong and Macau property prices remained robust during the first half of 2010. We believe this trend will sustain as long as there is no change in the above mentioned economic fundamentals.

The Chinese government's recent measures to cool its property market have naturally resulted in a fall in land prices in Mainland China thus allowing the Group to search actively for additional land bank for the first time since the end of 2008. New land bank to be acquired will add to the Group's existing high quality land holdings in Mainland China, Hong Kong and Macau which already provides a good supply of land for the next 4-5 years of development and which should provide additional profit for the Group over the next few years.

All in all, we believe that present economic circumstances are favorable to the Group's prudent yet positive business strategies. Over the past few years, with wise advice of the Board, as well as the dedication and hard-work of all staff, the Group has laid a solid foundation for its property development business. Barring unforeseen circumstances, we expect to report good results for the full year of 2010 and to be able to produce satisfactory profits in the years following.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2010 together with the comparative figures of 2009 are as follows.

Consolidated Income Statement

	<i>Note</i>	Six months ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Turnover	3	950,938	1,673,406
Cost of sales		(682,067)	(476,428)
Other revenue	4	19,393	52,298
Other net income	5	7,056	73,764
Depreciation and amortization		(5,494)	(5,617)
Staff costs		(45,460)	(68,061)
Other operating expenses		(40,969)	(55,988)
Impairment loss on properties written back		154,770	–
Fair value changes on investment properties		396,506	12,530
Gain on disposal of investment properties		9,826	–
Profit from operations		764,499	1,205,904
Finance costs	6	(5,884)	(12,119)
Share of profits of associated companies		1,308	520
Share of profits less losses of jointly controlled entities		11,329	(14,427)
Profit before taxation		771,252	1,179,878
Income tax	7	(110,511)	(56,954)
Profit for the period		660,741	1,122,924
Attributable to:			
Shareholders of the Company		609,575	887,141
Non-controlling interests		51,166	235,783
Profit for the period		660,741	1,122,924
Earnings per share – Basic/Diluted	8	HK\$0.53	HK\$0.77

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2010 (unaudited) <i>HK\$'000</i>	2009 (unaudited) <i>HK\$'000</i>
Profit for the period	660,741	1,122,924
Other comprehensive income for the period		
Exchange differences on translation of accounts of overseas subsidiaries	20,620	1,074
Changes in fair value of available-for-sale investments	(312)	(3,914)
Changes in fair value of interests in property development	–	(163,068)
Transfer to income statement upon recognition from interests in property development	–	(751,098)
Share of other comprehensive income of jointly controlled entities and associated companies	19,978	268
	40,286	(916,738)
Total comprehensive income for the period	701,027	206,186
Attributable to:		
Shareholders of the Company	648,608	244,604
Non-controlling interests	52,419	(38,418)
Total comprehensive income for the period	701,027	206,186

Consolidated Balance Sheet

	<i>Note</i>	At 30 June 2010		At 31 December 2009	
		(unaudited) <i>HK\$'000</i>	(unaudited) <i>HK\$'000</i>	(audited) <i>HK\$'000</i>	(audited) <i>HK\$'000</i>
Non-current assets					
Fixed assets					
– Investment properties			6,493,110		6,108,010
– Leasehold land held for own use			236,166		239,431
– Other property, plant and equipment			37,023		<u>38,616</u>
			6,766,299		6,386,057
Interests in property development			10,116,880		10,116,880
Interest in jointly controlled entities			1,298,965		1,280,826
Interest in associated companies			1,467,651		1,286,726
Financial investments			26,834		27,096
Loans and advances			6,984		9,338
Deferred tax assets			2,892		<u>30,266</u>
			19,686,505		19,137,189
Current assets					
Inventories			6,904,483		7,067,026
Trade and other receivables	<i>10</i>		626,885		169,622
Loans and advances			25,478		31,322
Amounts due from jointly controlled entities			161,838		210,822
Derivative financial instrument			–		7,800
Financial investments			87,072		80,016
Time deposit (pledged)			15,000		15,000
Cash and cash equivalents			629,576		<u>575,237</u>
			8,450,332		<u>8,156,845</u>

		At 30 June 2010		At 31 December 2009	
		(unaudited)	(unaudited)	(audited)	(audited)
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	11	717,128		1,061,330	
Amount payable to ultimate holding company		766,506		766,506	
Amounts due to jointly controlled entities		364,625		–	
Bank loans		3,912,500		3,117,500	
Current taxation		318,086		274,121	
		<u>6,078,845</u>		<u>5,219,457</u>	
Net current assets			<u>2,371,487</u>		<u>2,937,388</u>
Total assets less current liabilities			<u>22,057,992</u>		<u>22,074,577</u>
Non-current liabilities					
Loan from ultimate holding company		236,272		1,200,559	
Amount payable to ultimate holding company		–		566,374	
Bank loans		1,328,823		150,000	
Deferred tax liabilities		1,091,392		1,071,264	
			<u>2,656,487</u>		<u>2,988,197</u>
Net assets			<u><u>19,401,505</u></u>		<u><u>19,086,380</u></u>
Capital and reserves					
Share capital			115,068		115,068
Reserves			<u>16,299,516</u>		<u>16,019,126</u>
Total equity attributable to shareholders of the Company			<u>16,414,584</u>		<u>16,134,194</u>
Non-controlling interests			<u>2,986,921</u>		<u>2,952,186</u>
Total equity			<u><u>19,401,505</u></u>		<u><u>19,086,380</u></u>

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 2009 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2010 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 two revised Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes Hong Kong Financial Reporting Standards, HKASs and Interpretations), a number of amendments to HKFRSs 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:

- HKFRS 3 (revised 2008), “Business combinations”
- Amendments to HKAS 27, “Consolidated and separate financial statements”
- Improvements to HKFRSs (2009)

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognized in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following major changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder’s fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the costs of the business combination and therefore impacted the amount of goodwill recognized.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

In accordance with the transitional provision in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognized as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognized as a result of

such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognized at fair value as if re-acquired.
- Any losses incurred by a non-wholly owned subsidiary will be allocated between the equity shareholders and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, similar amendments have been made to HKAS 28, “Investments in associates”, and HKAS 31, “Interests in joint ventures”.
- As a result of the amendment to HKAS 17, “Leases”, arising from the “Improvements to IFRSs (2009)”, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group’s judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate, with the exception of those interests which are registered and transferable ownership interests in land located in Hong Kong. These leasehold interests will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods.

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/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.
- 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 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.

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 2010							
	Property development						
	Consolidated <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Macau <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Finance and investments <i>HK\$'000</i>	Others <i>HK\$'000</i>
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
Fair value changes on investment properties	396,506	–	–	–	396,506	–	–
Gain on disposal of investment properties	9,826	–	–	–	9,826	–	–
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 less losses of jointly controlled entities	11,329	–	–	196	11,133	–	–
Impairment loss on properties written back	154,770	154,770	–	–	–	–	–

Six months ended 30 June 2009

	Property development						Others HK\$'000
	Consolidated HK\$'000	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Property investment HK\$'000	Finance and investments HK\$'000	
Turnover	<u>1,673,406</u>	<u>463,700</u>	<u>751,648</u>	<u>–</u>	<u>135,493</u>	<u>300,416</u>	<u>22,149</u>
Reportable segment profit	1,207,353	222,858	744,489	(10,330)	139,221	109,304	1,811
Other revenue	46,859						
Fair value changes on investment properties	12,530	–	–	–	12,530	–	–
Share of fair value changes on investment properties of jointly controlled entity	(12,480)	–	–	–	(12,480)	–	–
Head office and corporate expenses	(62,265)						
Finance costs	<u>(12,119)</u>						
Profit before taxation	<u>1,179,878</u>						
Share of profits of associated companies	520	–	–	–	–	–	520
Share of profits less losses of jointly controlled entities	(14,427)	–	–	(8,959)	(5,468)	–	–

At 30 June 2010

	Property development						
	Consolidated HK\$'000	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Property investment HK\$'000	Finance and investments HK\$'000	Others HK\$'000
Reportable segment assets	27,297,983	4,103,337	10,301,749	5,379,190	7,074,509	154,822	284,376
Deferred tax assets	2,892						
Time deposit (pledged)	15,000						
Cash and cash equivalents	629,576						
Head office and corporate assets	191,386						
Consolidated total assets	28,136,837						
Interest in associated companies	1,467,651	–	–	1,457,566	–	–	10,085
Interest in and amounts due from jointly controlled entities	1,460,803	–	–	917,606	543,197	–	–

At 31 December 2009

	Property development						
	Consolidated HK\$'000	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Property investment HK\$'000	Finance and investments HK\$'000	Others HK\$'000
Reportable segment assets	26,651,857	3,717,032	10,932,417	4,889,639	6,660,526	156,309	295,934
Deferred tax assets	30,266						
Time deposit (pledged)	15,000						
Cash and cash equivalents	575,237						
Head office and corporate assets	21,674						
Consolidated total assets	27,294,034						
Interest in associated companies	1,286,726	–	–	1,276,773	–	–	9,953
Interest in and amounts due from jointly controlled entities	1,491,648	–	–	946,729	544,919	–	–

4 Other revenue

In 2009, other revenue included an aggregate amount of HK\$46,859,000 being the compensation and interest received/receivable upon the termination of the proposed acquisition of Shenzhen Properties & Resources Development (Group) Limited by the Group.

5 Other net income

Other net income represents fair value changes on held for trading listed investments of gain of HK\$7,056,000 (six months ended 30 June 2009: HK\$25,523,000) and derivative financial instruments of gain of HK\$Nil (six months ended 30 June 2009: HK\$48,241,000).

6 Finance costs

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Interest on bank loans and overdrafts	26,585	10,085
Interest on loan from/amount payable to ultimate holding company	3,187	11,040
Less: Amount capitalized	(23,888)	(9,006)
	<u>5,884</u>	<u>12,119</u>

7 Income tax

	Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Current tax		
Provision for profits tax		
– Hong Kong	15,778	48,454
– Outside Hong Kong	47,232	5,652
	<u>63,010</u>	<u>54,106</u>
Deferred tax	<u>47,501</u>	<u>2,848</u>
	<u>110,511</u>	<u>56,954</u>

The provision for Hong Kong profits tax is calculated by applying the estimated effective tax rate of 16.5% (six months ended 30 June 2009: 16.5%) to the six months ended 30 June 2010. Tax levied in jurisdictions outside Hong Kong is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in relevant jurisdictions.

8 Earnings per share

- (a) The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$609,575,000 (six months ended 30 June 2009: HK\$887,141,000) and weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2009: 1,150,681,275).
- (b) There are no diluted potential shares in existence during the six months ended 30 June 2010 and 2009.

9 Dividends

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.20 (six months ended 30 June 2009: HK\$0.20) per share	<u>230,136</u>	<u>230,136</u>

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

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:

	At 30 June	At 31 December
	2010	2009
	HK\$'000	HK\$'000
Current	<u>112,793</u>	<u>59,614</u>
Less than 3 months past due	58,961	6,032
3 months to 6 months past due	290	351
More than 6 months past due	<u>6,957</u>	<u>7,399</u>
Amounts past due	<u>66,208</u>	<u>13,782</u>
Trade receivables	179,001	73,396
Utility and other deposits	6,528	6,691
Other receivables and prepayments	<u>441,356</u>	<u>89,535</u>
	<u>626,885</u>	<u>169,622</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 minimize any credit risk associated with the receivables.

11 Trade and other payables

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

	At 30 June 2010 <i>HK\$'000</i>	At 31 December 2009 <i>HK\$'000</i>
Not yet due or on demand	126,755	152,783
Within 3 months	34,494	10,789
More than 6 months	56,581	69,086
	<hr/>	<hr/>
Trade payables	217,830	232,658
Rental and other deposits	63,638	65,039
Other payables and accrued expenses	293,557	174,160
Deposits received on sale of properties	142,103	589,473
	<hr/>	<hr/>
	717,128	1,061,330
	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

As at 30 June 2010, the Group's total bank borrowings amounted to HK\$5,241 million, with HK\$3,912 million repayable within one year and HK\$1,329 million repayable beyond one year. The net borrowings position of the Group as at 30 June 2010 was HK\$4,611 million after taking into account cash and cash equivalents of HK\$630 million. This was an increase of HK\$1,918 million as compared with the net borrowings of HK\$2,693 million as at 31 December 2009. At the same time, total loan from/amount payable to the ultimate holding company was HK\$1,003 million as at 30 June 2010, a reduction of HK\$1,530 million compared to end-2009.

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 34.2% as at 30 June 2010 as compared with 32.4% at end-2009.

During the period under review, total cash inflows from the Group's investment in Mainland China and Macau were approximately HK\$400 million and HK\$194 million respectively. The cash inflows were mainly related to the return of funds from the Group's investment in Foshan project and sales proceeds received from a property development project in Macau.

Approximately HK\$168 million was further invested by the Group in the Tianjin project for the first six months of 2010. Construction cost paid for the Group's development projects amounted to approximately HK\$263 million.

The total consideration in relation to the acquisition of Capsi Neft TME was US\$139.6 million. The Group had paid a deposit of US\$4 million upon signing of the agreements. The transactions have been completed subsequently after 30 June 2010. Upon completion, part of the outstanding consideration amounting to US\$133.6 million was settled, being the total outstanding consideration of US\$135.6 million less retention money of US\$2 million.

As at 30 June 2010, in connection to the Group's investment properties, the Group had commitments for construction work which amounted to HK\$129 million.

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

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 by entering into interest rate swap arrangements to hedge part of the Group's interest rate risk if necessary.

The Group is exposed to exchange 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. The exchange rate risks of other currencies are insignificant to the Group.

Pledge of Assets

As at 30 June 2010, properties having a value of HK\$10,290 million and time deposit 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 indemnify the other on a 50:50 basis for any loss arising from the guarantee. The banking facility was utilized to the extent of RMB80 million as at 30 June 2010. The other remaining guarantees amounted to RMB525 million, representing a 50% proportional guarantee in respect of an aggregate of RMB1,050 million term loan facilities. The facilities were utilized to the extent of RMB790 million as at 30 June 2010.

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 2010. 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 information 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 2010, 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 separated) as disclosed in the 2009 Annual Report.

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 six months ended 30 June 2010.

Closure of Register of Members

The register of members of the Company will be closed on 5 October 2010 and 6 October 2010. During which period, no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrars, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 pm on Monday, 4 October 2010.

Publication of Interim Report

The 2010 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 Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about 14 September 2010.

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

Hong Kong, 30 August 2010

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.