九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

2017 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2017, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$409 million compared to HK$291 million for the corresponding period in 2016, an increase of 40.5%.
- Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2017 rose to HK$346 million, an increase of 29.1% over the same period in 2016. The underlying net interim earnings per share for 2017 were HK$0.30 compared to HK$0.23 for 2016.
- All formalities of the land exchange for the Tseung Kwan O project (Hong Kong) were completed in April 2017, adding approximately 48,200 sq m gross floor area to the Group's readily developable residential landbank.
- Interim dividend per share for 2017 amounts to HK$0.22 (2016: HK$0.21).

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2017, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$409 million compared to HK$291 million for the corresponding period in 2016, an increase of 40.5%. The interim earnings per share for 2017 amounted to HK$0.36 compared to HK$0.25 for the same period in 2016.

Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2017 rose to HK$346 million, an increase of 29.1% over the same period in 2016. The underlying net interim earnings per share for 2017 were HK$0.30 compared to HK$0.23 for 2016.

The Board of Directors has declared an interim dividend per share for 2017 of HK$0.22 (2016: HK$0.21). The interim dividend will be payable on Wednesday, 13 December 2017 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 28 November 2017.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, while the government imposed further cooling measures on the property market to prevent it from overheating, transacted prices have far exceeded market expectations at recent government land auctions. Together with prevailing low interest rates, buyers' expectation of further property price increases has been boosted considerably. As a result, both transaction volumes and transacted prices in the primary residential market rose in the first half of 2017 compared to the same period in 2016, with transacted prices for both residential and office hitting new record highs.

In Mainland China, as a result of the imposition of further restrictive measures on the property markets in the first- and second-tier cities by the government, the rate of increase in transacted residential prices slowed in these cities in the first half of 2017. However, those third- and fourth-tier cities with mild home-buying restrictions recorded increases, in different degrees in the transacted residential prices as well as transaction volumes.

In Macau, overall sentiment and sales activity in both commercial and residential property markets continued to improve, with particularly the residential transaction volumes and transacted prices recording considerable increases in the first half of 2017. However, the Monetary Authority of Macau tightened mortgage lending in May 2017 to prevent the property market from overheating, with guidelines issued to banks on a reduction of the mortgage coverage ratios for purchasers. As a result, residential transaction volumes fell substantially in June 2017 from the levels in the previous month. In addition, lawmakers have recently passed certain amendments to the Rental Bill, which will likely reduce property investors' appetite.

Development Property Sales

In Hong Kong, the Group did not launch any new development projects for sale/presale for the period under review and continued to promote the sale of a small number of remaining residential units of its existing development projects in Hong Kong Island and Kowloon. For the period under review, the Group's presales/sales from its development projects in Hong Kong exceeded HK$600 million.

In Mainland China, total presales/sales of the Group's projects exceeded RMB2.9 billion for the first half of 2017, with presales/sales attributable to the Group of approximately RMB1.8 billion (approximately HK$2.1 billion).

In Macau, in respect of the La Marina development project (Lotes T + T1), with continuing efforts in expediting construction, all works were completed and the occupation permit was obtained on 3 July 2017. Refinement works for the project have been carried out and are currently making good progress. For the period under review, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for the period ended 30 June 2017.

With respect to the Pearl Horizon development project (Lote P) in Macau, Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has applied to the Courts of Macau to claim for compensation of time. If the applications are ultimately declined, the Macau Government would have a right to resume the land without any compensation to its owner. Nevertheless, based on the opinions provided by the Group's legal counsel, it is believed that PCL has strong legal grounds to obtain confirmation from the Courts of Macau that the administrative delays had been caused by the relevant government authorities and therefore PCL is entitled to obtain compensation of time to enable it to complete the project. Currently, the Group is still awaiting a hearing date to be fixed by the Courts of Macau for the legal proceedings.

Property Development

In Hong Kong, all formalities of the land exchange for Tseung Kwan O Town Lot No. 121 located in Area 85, Tseung Kwan O, Sai Kung, New Territories were completed on 18 April 2017 and the site is now wholly-owned by the Group, adding approximately 48,200 sq m gross floor area ("GFA") to its readily developable residential landbank.

As of 30 June 2017, the Group's landbank for development amounted to approximately 4.5 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	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	-	100%	Superstructure work in progress	2018
63 Pokfulam	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,200	-	100%	Foundation work in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	-	100%	Superstructure work in progress	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	-	100%	Design stage	2022
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	-	100%	Land premium negotiation in progress	To be determined

Major Property Projects under Planning and Development (continued)

Property Project	**District/ City**	**Usage**	**Approx. Total Site Area (sq m)**	**Approx. Total GFA (sq m)**	**Approx. Total GFA Booked※ (sq m)**	**Group's Interest**	**Status**	**Expected Date of Completion**
Mainland China								
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	285,300	100%	Construction work for the fourth phase in progress	Fourth phase 2018
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	366,500	100%	Construction work for the first phase B in progress	First phase B second half 2017
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)△	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	82,300	60%	Construction work for the second phase in progress	Second phase 2018
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	697,900	50%	Construction work for the fourth phase of high-rise residential towers in progress	Fourth phase of high-rise residential towers second half 2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	64,400	80%⊕	Construction work for the second phase in progress	Second phase second half 2017
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	35,800	49%	Construction work for the second phase of residential flats completed	Third phase to be determined
Macau								
Pearl Horizon△	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	-	58.8%	Suspended	To be determined
La Marina△	Lotes T + T1, Novos Aterros da Areia Preta	Residential & retail	17,900	195,600	-	58.8%	Occupation Permit obtained#	Completed

※ Approx. total GFA booked and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.
\# Obtained Occupation Permit on 3 July 2017.
⊕ Obtained 100% interest on 19 July 2017.
△ The development of these projects is under the co-investment agreements with the ultimate holding company and its wholly-owned subsidiaries.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2017 rose to HK$178 million, an increase of 5.3% over the corresponding period in 2016. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose 6.9% to HK$154 million.

Other Businesses through Polytec Asset Holdings Limited ("Polytec Asset")

The Group's exposures to the property investment in Macau, the oil business and the ice manufacturing and cold storage business are through its 73.4%-owned listed subsidiary, Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau
For the period under review, the Group's share of gross rental income generated from its investment properties rose to HK$31.3 million, an increase of 8.3% over the same period in 2016. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK$29.1 million for the first half of 2017 compared to HK$26.8 million for the corresponding period in 2016.

Oil
For the six months ended 30 June 2017, the segment recorded a loss of HK$9.5 million, representing an increase of approximately HK$2.6 million in operating loss over the same period in 2016. The increase in operating loss was primarily because the Group strategically lowered the current oil production during the period to preserve its oil reserves considering that no profit would have been generated at persistently low oil prices. Consequently, oil sales revenue was reduced significantly and, with substantial fixed operating costs associated with production, the segment's operating loss widened.

Ice Manufacturing and Cold Storage
During the period under review, total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$10.6 million compared to HK$14.8 million for the corresponding period in 2016. While segment revenue remained stable for the period, the decrease in operating profit was attributable to the increase in non-recurring expenses relating to replacement and maintenance of machinery.

PROSPECTS

In Hong Kong, the Group launched the presale of 63 Pokfulam in July 2017 and intends to launch the presale for the development project in Lei Yue Mun in the first half of 2018. Construction works for Upper East in Hung Hom are progressing well and is scheduled to be completed in 2018. This development project has been well received by the market and achieved satisfactory sales, with over 90% of residential units already being presold so far. The Group's development project in Tseung Kwan O is in the final stage of design and construction works will be commenced once all plans are approved.

In Mainland China, construction works for the Group's various development projects are progressing smoothly. The Group has been making every effort to obtain approvals for additional plans proposed for its various development projects aiming to further expand the scale of its existing development and boost property sales in the coming two to three years.

In Macau, with regard to the La Marina development project, based on the current progress in refinement works, it is expected that the presold residential units could be delivered to the buyers in the fourth quarter of 2017 as scheduled. The remaining residential units will be put on the market for sale in phases. Given that La Marina is a relatively sizeable development project, it is expected to make a contribution to the Group's earnings in the coming years. With respect to the Pearl Horizon development project, in addition to taking the legal route to protect the Group's as well as the buyers' interests, all other practicable approaches have been actively explored in order to be able to resume construction if and as soon as this becomes possible.

With regard to the Group's oil business in Kazakhstan held through Polytec Asset, as international oil prices for the rest of 2017 appear unlikely to change substantially from current levels, this segment is not expected to make a contribution to earnings for the second half of 2017. Given the relatively small scale of this business, its impact on the Group's results will be modest. In addition, the Group expects its investment property portfolio in Macau as well as its ice manufacturing and cold storage business in Hong Kong will continue to generate stable income for the second half of 2017.

Looking ahead, as a number of the Group's property development projects in Mainland China are scheduled to be completed in the second half of 2017, their sales proceeds will then be booked accordingly. Together with the partial income distribution from the La Marina development project in Macau, the Group's results for the second half of 2017 are expected to be better than its results in the same period of 2016, barring unforeseen circumstances.

The Group is currently facing different challenges in each of the three markets to which it has exposure and I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow directors for their support and all staff for their dedication, hard work and contribution.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2017 together the comparative figures for 2016 are as follows:

Consolidated Income Statement

	Note	Six months ended 30 June **2017** *HK$'000* *(unaudited)*	2016 *HK$'000* *(unaudited)*
Revenue	*3*	**1,556,467**	2,760,097
Cost of sales		**(998,762)**	(2,194,952)
Other revenue		**19,632**	9,662
Other net income		**795**	596
Depreciation and amortisation		**(8,205)**	(8,644)
Staff costs		**(103,604)**	(95,591)
Selling, marketing and distribution expenses		**(84,089)**	(120,036)
Other operating expenses		**(43,158)**	(55,790)
Fair value changes on investment properties		**49,495**	(10,832)
Profit from operations		**388,571**	284,510
Finance costs	*4*	**(66,973)**	(66,105)
Share of profits of associated companies		**68,551**	45,883
Share of profits of joint ventures		**111,980**	70,685
Profit before taxation		**502,129**	334,973
Income tax	*5*	**(70,395)**	(36,074)
Profit for the period		**431,734**	298,899
Attributable to :			
Shareholders of the Company		**408,730**	290,979
Non-controlling interests		**23,004**	7,920
Profit for the period		**431,734**	298,899
Earnings per share – Basic/Diluted	*6*	**HK$0.36**	HK$0.25

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**431,734**	298,899
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**90,722**	(80,608)
Changes in fair value of interests in property development	**133,727**	(249,270)
Transfer to income statement upon recognition of distribution from interests in property development	**(55,793)**	–
Share of other comprehensive income of joint ventures and associated companies	**80,362**	(116,150)
	249,018	(446,028)
Total comprehensive income for the period	**680,752**	(147,129)
Attributable to:		
Shareholders of the Company	**629,390**	(70,553)
Non-controlling interests	**51,362**	(76,576)
Total comprehensive income for the period	**680,752**	(147,129)

Consolidated Statement of Financial Position

	Note		At 30 June 2017		At 31 December 2016
			HK$'000		*HK$'000*
			(unaudited)		*(audited)*
Non-current assets					
Investment properties			**11,747,612**		11,600,514
Property, plant and equipment	*11*		**763,505**		780,012
Oil exploitation assets	*11*		**47,656**		48,156
Interests in property development	*8*		**13,466,816**		13,388,882
Interest in joint ventures			**3,245,275**		3,121,235
Interest in associated companies			**1,081,637**		1,796,371
Loans and advances	*9*		**1,006,143**		871,855
Deferred tax assets			**176,731**		176,058
			31,535,375		31,783,083
Current assets					
Inventories		**12,677,349**		12,083,996	
Trade and other receivables	*9*	**1,409,572**		1,797,498	
Loans and advances	*9*	**24,852**		24,816	
Amount due from a joint venture		**80,485**		72,452	
Pledged bank deposit		**15,000**		15,000	
Cash and bank balances		**1,218,140**		795,400	
		15,425,398		14,789,162	

	Note	At 30 June 2017 HK$'000 (unaudited)		At 31 December 2016 HK$'000 (audited)	
Current liabilities					
Trade and other payables	*10*	**5,157,171**		5,166,617	
Amounts due to non-controlling interests		**200,000**		200,000	
Amount due to a joint venture		**716,080**		694,793	
Loan from an associated company		**38,122**		35,781	
Bank loans		**5,136,536**		2,544,200	
Current taxation		**86,071**		82,268	
		11,333,980		8,723,659	
Net current assets			**4,091,418**		6,065,503
Total assets less current liabilities			**35,626,793**		37,848,586
Non-current liabilities					
Loan from ultimate holding company		**105,463**		1,534,546	
Loan from a fellow subsidiary		**228,337**		814,056	
Bank loans		**7,089,800**		7,525,853	
Other payables		**20,224**		21,409	
Deferred tax liabilities		**868,354**		861,838	
			8,312,178		10,757,702
NET ASSETS			**27,314,615**		27,090,884
Capital and reserves					
Share capital			**8,417,472**		8,417,472
Reserves			**15,342,845**		15,162,221
Total equity attributable to the shareholders of the Company			**23,760,317**		23,579,693
Non-controlling interests			**3,554,298**		3,511,191
TOTAL EQUITY			**27,314,615**		27,090,884

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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. 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.

The financial information relating to the financial year ended 31 December 2016 that is included in this announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Changes in accounting policies

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. 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 sale of properties and interests in property development. Given the importance of the 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 provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

Revenue comprises mainly rental income from properties, gross proceeds from sale of properties and crude oil and interest income.

Reportable segment profit represents profit before taxation after 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 2017						
		Property development					
	Consolidated *HK$'000*	**Hong Kong** *HK$'000*	**Mainland China** *HK$'000*	**Macau** *HK$'000*	**Property investment** *HK$'000*	**Oil** *HK$'000*	**Others** *HK$'000*
Revenue	**1,556,467**	**506,538**	**754,001**	**–**	**177,962**	**31,469**	**86,497**
Reportable segment profit	**530,547**	**73,735**	**230,620**	**3,122**	**201,188**	**(9,515)**	**31,397**
Other net income	**795**	**–**	**–**	**–**	**795**	**–**	**–**
Fair value changes on investment properties	**49,495**	**–**	**–**	**–**	**49,495**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**37,840**	**–**	**–**	**–**	**37,840**	**–**	**–**
Head office and corporate expenses	**(49,575)**						
Finance costs	**(66,973)**						
Profit before taxation	**502,129**						
Share of profits of associated companies	**68,551**	**–**	**67,904**	**–**	**–**	**–**	**647**
Share of profits of joint ventures	**111,980**	**–**	**39,926**	**–**	**72,054**	**–**	**–**

	Six months ended 30 June 2016						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
Revenue	2,760,097	891,809	1,560,738	–	169,388	48,366	89,796
Reportable segment profit	439,138	122,786	98,100	1,790	195,149	(6,941)	28,254
Other net income	596	–	–	–	596	–	–
Fair value changes on investment properties	(10,832)	–	–	–	(10,832)	–	–
Share of fair value changes on investment properties of a joint venture	23,760	–	–	–	23,760	–	–
Head office and corporate expenses	(51,584)						
Finance costs	(66,105)						
Profit before taxation	334,973						
Share of profits of associated companies	45,883	–	45,564	–	–	–	319
Share of profits of joint ventures	70,685	–	14,887	–	55,798	–	–

3 Segment reporting *(continued)*

	At 30 June 2017						
		Property development					
	Consolidated *HK$'000*	**Hong Kong** *HK$'000*	**Mainland China** *HK$'000*	**Macau** *HK$'000*	**Property investment** *HK$'000*	**Oil** *HK$'000*	**Others** *HK$'000*
Reportable segment assets	**45,527,285**	**8,423,211**	**9,721,029**	**12,210,267**	**13,229,173**	**594,873**	**1,348,732**
Deferred tax assets	**176,731**						
Pledged bank deposit	**15,000**						
Cash and bank balances	**1,218,140**						
Head office and corporate assets	**23,617**						
Consolidated total assets	**46,960,773**						
Interest in associated companies	**1,081,637**	**–**	**1,048,326**	**–**	**–**	**–**	**33,311**
Interest in and amount due from joint ventures	**3,325,760**	**–**	**1,853,960**	**–**	**1,471,800**	**–**	**–**

	At 31 December 2016						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
Reportable segment assets	45,556,737	7,819,996	10,741,145	12,131,166	13,046,339	605,925	1,212,166
Deferred tax assets	176,058						
Pledged bank deposit	15,000						
Cash and bank balances	795,400						
Head office and corporate assets	29,050						
Consolidated total assets	46,572,245						
Interest in associated companies	1,796,371	–	1,767,208	–	–	–	29,163
Interest in and amount due from joint ventures	3,193,687	–	1,760,291	–	1,433,396	–	–

4 Finance costs

	Six months ended 30 June	
	2017 *HK$'000*	2016 *HK$'000*
Interest on bank loans and overdrafts	**87,860**	68,042
Interest on loans from ultimate holding company and a fellow subsidiary	**13,257**	44,695
Less: Amount capitalised	**(34,144)**	(38,246)
	66,973	74,491
Less: Interest expenses included as other operating expenses	**-**	(8,386)
	66,973	66,105

5 Income tax

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Current tax		
Provision for profits tax		
– Hong Kong	**37,463**	37,171
– Outside Hong Kong	**30,011**	13,329
	67,474	50,500
Land appreciation tax ("LAT")	**2,988**	19,338
Deferred tax	**(67)**	(33,764)
	70,395	36,074

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profits for the six months ended 30 June 2017. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in 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 the land value, being the proceeds of sale of properties less deductible expenditure including cost of land use rights, borrowings costs and all property development expenditure.

6 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$408,730,000 (six months ended 30 June 2016: HK$290,979,000) and the weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2016: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2017 and 2016.

7 Dividends

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK$0.22 (six months ended 30 June 2016: HK$0.21) per share	**258,859**	241,643

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

8 Interests in property development

Interests in property development mainly represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau under the co-investment agreements with two wholly owned subsidiaries of the ultimate holding company. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the development projects which is subject to an aggregate maximum amount. In return, the two wholly owned subsidiaries of the ultimate holding company will pay to the Group cash flows from the development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements are disclosed in the Company's Circular dated 23 May 2006. Interests in property development are stated at fair value at the end of reporting period.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the land use was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ending on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which is renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but was declined by the relevant department of the Macau SAR Government.

Based on a legal opinion received by the Group, Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly owned subsidiary of the ultimate holding company of the Company, has sufficient grounds to apply to the Courts of the Macau SAR for remedies in all aspects to continue and complete the project. A few legal actions have been initiated by the legal representatives of PCL and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of PCL to claim for compensation of time in order to allow the completion of the construction work of the Lote P development project and deliver the properties to the respective purchasers. Currently, the Group is still awaiting hearing dates to be fixed by the Courts of the Macau SAR for the legal proceedings.

As the outcome of these court proceedings is still uncertain, management of the Company have taken into account all available evidence, including the opinion of legal experts, in preparing the discounted cash flow model in order to assess the fair value of the project. Management of the Company believe that PCL has strong legal grounds to obtain a favourable judgment so that the Lote P development project will be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgment being obtained and relevant approvals being given by the Macau SAR Government. No impairment for the interests in property development was considered necessary at 30 June 2017.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained on 3 July 2017 which was before the expiry date of its land concession on 5 July 2017. Based on the current status, it is expected that the pre-sold residential units could be delivered to the buyers in the fourth quarter of 2017.

9 Trade and other receivables/Loans and advances

Included in this item are trade receivables and loans and advances (net of impairment losses for bad and doubtful debts) with an ageing analysis (based on the due date) as follows:

	At 30 June 2017	At 31 December 2016
	HK$'000	*HK$'000*
Current	**2,053,070**	2,300,082
Within 3 months	**17,626**	16,648
3 months to 6 months	**762**	350
More than 6 months	**16,083**	14,034
Trade receivables and loans and advances	**2,087,541**	2,331,114
Utility and other deposits	**43,022**	42,875
Other receivables and prepayments	**310,004**	320,180
	2,440,567	2,694,169

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

10 Trade and other payables

Included in this item are trade payables with an ageing analysis (based on the due date) as follows:

	At 30 June 2017	At 31 December 2016
	HK$'000	*HK$'000*
Not yet due or on demand	**1,414,876**	1,692,225
Within 3 months	**13,628**	7,422
3 months to 6 months	**1**	18
More than 6 months	**3**	3
Trade payables	**1,428,508**	1,699,668
Rental and other deposits	**77,759**	74,824
Other payables and accrued expenses	**745,764**	463,844
Deposits received on sale of properties	**2,905,140**	2,928,281
	5,157,171	5,166,617

11 Oil production assets and Oil exploitation assets

As at 30 June 2017, the Group had oil production assets of HK$524,772,000 (31 December 2016: HK$533,652,000) (included in property, plant and equipment) and oil exploitation assets of HK$47,656,000 (31 December 2016: HK$48,156,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group), in Kazakhstan, will expire on 31 December 2017. Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 31 December 2017 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2017, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No impairment loss is considered necessary for the period ended 30 June 2017. The recoverable amount of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (31 December 2016: 12.5%).

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$12,226 million as at 30 June 2017 (31 December 2016: HK$10,070 million), comprising of HK$5,136 million repayable within one year and HK$7,090 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,218 million, the Group's net bank borrowings position was HK$11,008 million as at 30 June 2017. Total loans from ultimate holding company and a fellow subsidiary amounted to HK$334 million as at 30 June 2017.

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) was reduced to 47.7% as at 30 June 2017 (31 December 2016: 49.3%).

During the period under review, sales/presales for the property projects in Hong Kong contributed cash inflows of HK$823 million to the Group. Furthermore, the Group has recorded approximately of HK$533 million cash inflows mainly from sales/presales of various development projects in Mainland China.

In April 2017, the Group has successfully completed the land exchange for a residential project located in Tseung Kwan O, Hong Kong, which was acquired from the ultimate holding company in early 2016.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$700 million for construction costs during the period.

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 in relevant hedging arrangements when considered appropriate.

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 30 June 2017, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows 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 2017, the Group had commitments in connection with the Group's investment properties amounting to HK$28.3 million.

Pledge of assets

As at 30 June 2017, properties having a value of HK$20,088 million and bank 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 joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK$847 million, representing a 50% proportional guarantee in respect of HK$1,694 million term loan facilities. The facilities were utilised to the extent of HK$1,417 million as at 30 June 2017.

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 2017. The Group's independent auditor, KPMG, has conducted 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 Corporate Governance Code

During the six months ended 30 June 2017, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on 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, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the Annual Report 2016.

Code Provision A.6.7

All Non-executive Directors and Independent Non-executive Directors attended the Annual General Meeting of the Company held on 7 June 2017 ("AGM"), other than an Independent Non-executive Director who was unable to attend the AGM as he was overseas at the time.

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 2017.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 27 November 2017 to Tuesday, 28 November 2017, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, 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, 24 November 2017.

Publication of Interim Report

The Interim Report 2017 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 28 September 2017.

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

Hong Kong, 23 August 2017

As at the date of this announcement, the Directors of the Company are Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Lam Yung Hei as Executive Directors; Ms Ng Chi Man 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.