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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)

2012 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- The Group's net profit rises to HK\$872.4 million for the six months ended 30 June 2012, an increase of 5.1% over the corresponding period in 2011.
- Excluding revaluation gains from the Group's investment properties, the underlying net profit for the first six months of 2012 amounts to HK\$363.6 million compared to HK\$456.0 million during the same period in 2011. The underlying interim earnings per share for 2012 amount to HK\$0.32 compared to HK\$0.40 for 2011.
- For the second half of 2012, the majority of the Group's earnings will likely be generated from its property sales in Hong Kong.
- Interim dividend per share for 2012 amounts to HK\$0.21 (2011: HK\$0.21).

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2012, the Group's unaudited net profit attributable to shareholders rose to HK\$872.4 million, an increase of 5.1% over the corresponding period in 2011, giving interim earnings per share of HK\$0.76 compared to HK\$0.72 for 2011.

Excluding revaluation gains from its investment properties, the Group's underlying net profit for the first six months of 2012 amounted to HK\$363.6 million compared to HK\$456.0 million over the corresponding period of 2011. The underlying net interim earnings per share for 2012 were HK\$0.32 compared to HK\$0.40 for 2011.

The Board of Directors has declared an interim dividend per share for 2012 of HK\$0.21 (2011: HK\$0.21). The interim dividend will be payable on Friday, 12 October 2012 to shareholders whose names appear on the Register of Members of the Company on Thursday, 4 October 2012.

BUSINESS REVIEW

The restrictive housing measures imposed by governments in Hong Kong, Mainland China and Macau in early 2011 have cooled down their respective residential property markets to some extent, with transaction volumes having generally declined in these markets. However, overall sentiment in all three residential property markets has appeared to improve somewhat since the second quarter of 2012 although the extent of improvement in residential transaction volumes has varied across regions or cities.

Property Sales

In Hong Kong, we have sold almost all residential units at Mount East, the Group's wholly-owned luxury residential project in North Point, with total recognised sales proceeds for the first half of 2012 of HK\$153.4 million. In Mainland China, total recognised sales proceeds for Le Cove City (Shenyang), the Group's 100% owned residential project in Shenyang, amounted to HK\$234.2 million in the first half of 2012. For the Lake, the Group's joint-venture project in Foshan, total recognised sales proceeds amounted to HK\$628.4 million during the period under review.

Property Development

As of 30 June 2012, the Group's landbank 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. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Gardenia	Sham Shui Po, Kowloon	468 Sai Yeung Choi Street North	Residential	1,114	8,400	100%	Superstructural work topped out and fitting out work in progress	2012
Cadogan	Kennedy Town, Hong Kong	37A Cadogan Street	Residential & commercial	1,318	13,200	100%	Superstructural work in progress	2014
Macpherson Stadium	Mongkok, Kowloon	10 Yim Po Fong Street	Stadium, youth centre, residential & commercial	2,400	24,800	Joint venture with Urban Renewal Authority and Hong Kong Playground Association	Superstructural work topped out Curtain wall installation and fitting out work in progress	2013
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	49-65A Pok Fu Lam Road	Residential	1,162	9,300	100%*	Seeking Building Department's approval on development proposal	To be determined
Hung Hom	Hung Hom, Kowloon	Wan On Street	Residential & commercial	4,038	33,900	86.6%	Acquisition of the remaining units in progress	To be determined
Clear Water Bay Road	Ngau Chi Wan, Kowloon	35 Clear Water Bay Road	Residential & commercial	19,335	196,400	100%	Foundation work in progress	To be determined
Fuk Chak Street**	Tai Kok Tsui, Kowloon	12-22 Fuk Chak Street	Residential & commercial	781	6,600	100%	Ready for commencement of foundation works	To be determined

* 1.9% acquired by the Group after 30 June 2012.

** Acquired by the Group after 30 June 2012.

Major Property Projects under Planning and Development (continued)

Property Project	District/ City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
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Mainland China

Le Cove City (Shenyang) 江灣城(瀋陽)	Hun Nan Xin District, Shenyang	6 Hun Nan Er Road	Residential & commercial	165,303	712,000	100%	Superstructural work for second phase in progress	By phases from 2011 onwards
The Gardenia (Shenyang) 翠堤灣(瀋陽)	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
Le Cove City (Wuxi) 江灣城(無錫)	Chong An 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
Galaxy Heights (Zhongshan) 星際豪庭(中山)	Shiqi District, Zhongshan	8 Xueyuan Road	Residential & commercial	18,334	129,000	70%	Superstructural work in progress	2013
The Lake (Foshan) 山語湖(佛山)	Nanhai District, Foshan	Heshun Meijing Shuike Sector, Lishui Town	Residential & commercial	4,020,743	1,600,000	50%	Construction work in progress	By phases from 2009 onwards
Hedong Project (Tianjin) 河東項目(天津)	Hedong District, Tianjin	Lot No. Jin Dong Liu 2004-066, Intersection of Shiyijing Road and Liuwei Road	Residential & commercial	135,540	930,000	49%	Master layout plan submitted for approval	To be determined
Jun Tai Garden (Dongguan) 君珩花園(東莞)	Nancheng District, Dongguan	East of Hongwei Road, Xi Ping She Qu	Residential & commercial	32,521	79,700	40%	Construction work to be commenced in September 2012	2013/2014

Macau

Pearl Horizon, Lote P	Novos Aterros da Areia Preta	Lote P, The Orient Pearl District	Residential & commercial	68,000	699,700	58.8%	Building plan has been approved	By phases from 2015/2016 onwards
Lotes T + T1	Novos Aterros da Areia Preta	Lotes T + T1, The Orient Pearl District	Residential & commercial	17,900	195,600	58.8%	Building plan has been approved	2015/2016

[#] With additional underground GFA of approximately 15,000 sq m for the commercial portion and over 2,300 carparking spaces.

Property Investment

During the period under review, the Group disposed of a number of retail units at New Mandarin Plaza and Sino Centre in Hong Kong, with a total recognised gain of HK\$73.4 million.

Despite disposal of the above non-core investment properties, the Group's gross rental income from its property investment portfolio for the first six months of 2012 rose slightly to HK\$147.0 million. Total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, rose 2.5% to HK\$122.7 million, with almost all retail spaces and offices being let as of 30 June 2012.

Oil Business

For the six months ended 30 June 2012, total revenue generated from the oil business rose considerably to HK\$259.6 million, with an operating profit of HK\$73.2 million, compared to total revenue of HK\$27.3 million and an operating loss of HK\$29.1 million during the corresponding period in 2011. The significant improvement in operating results was mainly due to the Group's successful drilling program and its efforts to overcome various challenges in its oil fields in Kazakhstan. In fact, two new wells which have been put into production in September and December 2011, contributed a majority of the production volume during the period under review, with the aggregate daily production rate reaching 1,550 barrels by 30 June 2012.

A further two wells were successfully put into production in July this year. It is expected that the aggregate daily production may further increase in the second half of 2012. The increase in production is expected to contribute growing earnings to the Group in the second half of the year.

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

Post Balance Sheet Events

As announced on 18 July 2012, Brilliant Idea Investments Limited (“Brilliant Idea”), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with a subsidiary of Polytec Holdings International Limited, the ultimate holding company of the Company pursuant to which Brilliant Idea agreed to purchase 100% equity interest in the issued share capital of Mass Ventures International Limited (“Mass Ventures”) together with the assignment of sale loan for an aggregate consideration of HK\$374,830,981. Mass Ventures owns the whole of a redevelopment residential project in Kowloon, Hong Kong, which is its only asset, with a registered site area of approximately 781 sq m.

The above acquisition has further expanded the Group’s landbank in Hong Kong. This redevelopment site is located in Tai Kok Tsui, West Kowloon. The old buildings have recently been demolished and foundation work will be commenced shortly. The presale of the residential units in the development will likely start in the first half of 2013. We believe this acquisition will generate a satisfactory rate of return for the Group.

On 18 July 2012, the Group finally achieved 100% ownership of its residential redevelopment project in Pok Fu Lam Road after years of efforts. This site is located in 49-65A Pok Fu Lam Road, with an aggregate site area of approximately 1,162 sq m. The project is currently at the design stage and is intended to be developed into two luxury residential towers.

PROSPECTS

Over the past six months, the world’s major economies have been slowing, with the extent of the growth slowdown varying across countries. Indeed, the outlook for the global economy appears to be increasingly uncertain and we still see a challenging market environment for the rest of 2012. However, we remain cautiously optimistic about the outlook for the three economies in the Greater China region and hence their property markets over the medium and long term.

In Hong Kong, we have recently launched the presale of two wholly-owned new residential projects since end-May this year, namely Gardenia and Cadogan, which have been well received by the market. The combined presales proceeds of these two new projects have exceeded HK\$1.3 billion so far. We will continue to accelerate the development pace of our projects in Hong Kong. Two additional residential projects are now in the pipeline for presale in the next 6 to 9 months, namely the project in the Macpherson Stadium and the newly acquired redevelopment project in Tai Kok Tsui.

In Mainland China, we have presold over 40% of residential units in the second phase of Le Cove City (Shenyang) so far this year and the presales will likely be recognised before the first half of 2013.

In Macau, construction work on Pearl Horizon, Lote P in the Orient Pearl District, the Group’s mega luxury residential and commercial development project which Polytec Asset, the Group’s 73.4%-owned subsidiary, has an 80% interest, is scheduled to be commenced in the fourth quarter of this year. For the Lotes T + T1 project, we are currently clearing all necessary formalities before the start of construction.

For the second half of 2012, the majority of the Group’s earnings will likely be generated from its property sales in Hong Kong. Barring unforeseen circumstances, it is expected that the Group’s operating results for the full year of 2012 will be satisfactory.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2012 together with the comparative figures of 2011 are as follows:

Consolidated Income Statement

	<i>Note</i>	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Turnover	3	838,105	651,604
Cost of sales		(285,013)	(256,668)
Other revenue		17,938	8,976
Other net income	4	103,000	213,625
Depreciation and amortisation		(7,475)	(5,779)
Staff costs		(77,220)	(68,375)
Selling and marketing expenses		(105,848)	(26,118)
Other operating expenses		(67,153)	(64,071)
Fair value changes on investment properties		506,278	296,310
Profit from operations		922,612	749,504
Finance costs	5	(49,163)	(17,891)
Share of profits of associated companies		2,141	169
Share of profits of jointly controlled entities		114,633	190,139
Profit before taxation		990,223	921,921
Income tax	6	(73,011)	(43,174)
Profit for the period		917,212	878,747
Attributable to:			
Shareholders of the Company		872,438	829,988
Non-controlling interests		44,774	48,759
Profit for the period		917,212	878,747
Earnings per share - Basic/Diluted	7	HK\$0.76	HK\$0.72

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	917,212	878,747
Other comprehensive income for the period		
Exchange differences on translation of accounts of overseas subsidiaries	(18,691)	47,353
Changes in fair value of available-for-sale investments	(629)	2,147
Changes in fair value of interests in property development	–	12,942
Share of other comprehensive income of jointly controlled entities and associated companies	(17,896)	59,898
Transfer to income statement upon disposal of a subsidiary	–	(481)
	(37,216)	121,859
Total comprehensive income for the period	879,996	1,000,606
Attributable to:		
Shareholders of the Company	855,286	947,862
Non-controlling interests	24,710	52,744
Total comprehensive income for the period	879,996	1,000,606

Consolidated Balance Sheet

		At 30 June 2012		At 31 December 2011	
	Note	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (audited)
Non-current assets					
Fixed assets					
– Investment properties			9,231,450		8,808,370
– Leasehold land held for own use			225,662		228,964
– Other property, plant and equipment			1,347,934		1,291,609
			10,805,046		10,328,943
Oil exploitation assets			117,143		120,785
Interests in property development			10,190,981		10,190,981
Interest in jointly controlled entities			2,015,982		1,907,547
Interest in associated companies			2,309,668		2,124,195
Financial investments			16,274		19,555
Loans and advances			11,003		3,088
Deferred tax assets			21,835		10,314
			25,487,932		24,705,408
Current assets					
Inventories		12,192,774		11,736,445	
Trade and other receivables	9	489,674		593,515	
Loans and advances		16,112		22,252	
Amounts due from jointly controlled entities		102,331		131,662	
Financial investments		88,028		80,255	
Time deposits (pledged)		15,000		15,000	
Cash and cash equivalents		604,344		764,144	
		13,508,263		13,343,273	

		At 30 June 2012		At 31 December 2011	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(audited)	(audited)
Current liabilities					
Trade and other payables	10	1,949,101		1,609,749	
Amounts due to non-controlling interests		200,000		200,000	
Amount due to a jointly controlled entity		758,259		581,200	
Bank loans		1,607,192		1,415,000	
Current taxation		293,327		257,856	
		<u>4,807,879</u>		<u>4,063,805</u>	
Net current assets			<u>8,700,384</u>		<u>9,279,468</u>
Total assets less current liabilities			<u>34,188,316</u>		<u>33,984,876</u>
Non-current liabilities					
Loan from ultimate holding company		4,819,601		5,097,532	
Amount payable to ultimate holding company		865,090		680,579	
Bank loans		4,327,452		4,531,779	
Other payables		48,957		46,637	
Deferred tax liabilities		829,094		812,814	
			<u>10,890,194</u>		<u>11,169,341</u>
NET ASSETS			<u>23,298,122</u>		<u>22,815,535</u>
Capital and reserves					
Share capital			115,068		115,068
Reserves			<u>20,132,399</u>		<u>19,656,838</u>
Total equity attributable to the shareholders of the Company			<u>20,247,467</u>		<u>19,771,906</u>
Non-controlling interests			<u>3,050,655</u>		<u>3,043,629</u>
TOTAL EQUITY			<u>23,298,122</u>		<u>22,815,535</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 2011 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2012 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 few amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. These include the amendments to HKAS 12, “Income Taxes - Deferred tax: recovery of underlying assets”, which the Group has already adopted in the prior period. None of the other developments are relevant to the Group’s interim financial report and 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. Finance and investments segment presented in previous periods has been grouped under other business segment. Certain comparative figures have been reclassified to conform to current period’s presentation.

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

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

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

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

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 2012						
		Property development					
	Consolidated	Hong Kong	Mainland	Macau	Property	Oil	Others
	HK\$'000	HK\$'000	China	HK\$'000	investment	HK\$'000	HK\$'000
			HK\$'000		HK\$'000		
Turnover	838,105	153,383	221,115	1,656	147,003	259,637	55,311
Reportable segment profit	449,341	92,202	90,024	3,647	155,078	73,182	35,208
Other net income	95,227	–	–	21,805	73,422	–	–
Fair value changes on investment properties	506,278	–	–	–	506,278	–	–
Share of fair value changes on investment properties of a jointly controlled entity	39,600	–	–	–	39,600	–	–
Head office and corporate expenses	(51,060)						
Finance costs	(49,163)						
Profit before taxation	990,223						
Share of profits of associated companies	2,141	–	(1,142)	–	–	–	3,283
Share of profits of jointly controlled entities	114,633	–	57,983	–	56,650	–	–
	Six months ended 30 June 2011						
		Property development					
	Consolidated	Hong Kong	Mainland	Macau	Property	Oil	Others
	HK\$'000	HK\$'000	China	HK\$'000	investment	HK\$'000	HK\$'000
			HK\$'000		HK\$'000		
Turnover	651,604	380,631	–	48,102	146,645	27,333	48,893
Reportable segment profit	465,989	241,276	45,717	33,863	156,244	(29,123)	18,012
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)

At 30 June 2012							
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	38,337,676	6,067,681	10,301,018	10,104,758	9,969,559	1,459,860	434,800
Deferred tax assets	21,835						
Time deposit (pledged)	15,000						
Cash and cash equivalents	604,344						
Head office and corporate assets	17,340						
Consolidated total assets	<u>38,996,195</u>						
Interest in associated companies	2,309,668	–	2,294,275	–	–	–	15,393
Interest in and amounts due from jointly controlled entities	2,118,313	–	1,390,709	–	727,604	–	–
At 31 December 2011							
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	37,245,110	5,949,174	9,676,050	10,280,052	9,506,796	1,414,643	418,395
Deferred tax assets	10,314						
Time deposit (pledged)	15,000						
Cash and cash equivalents	764,144						
Head office and corporate assets	14,113						
Consolidated total assets	<u>38,048,681</u>						
Interest in associated companies	2,124,195	–	2,112,085	–	–	–	12,110
Interest in and amounts due from jointly controlled entities	2,039,209	–	1,350,459	–	688,750	–	–

4 Other net income

Other net income represents a net gain on disposal of investment properties of HK\$73,422,000 (six months ended 30 June 2011: HK\$131,878,000), a gain of disposal of a subsidiary of HK\$Nil (six months ended 30 June 2011: HK\$88,089,000), an impairment loss on properties written back of HK\$21,805,000 (six months ended 30 June 2011: HK\$Nil) and fair value changes on held for trading listed investments of gain of HK\$7,773,000 (six months ended 30 June 2011: loss of HK\$6,342,000).

5 Finance costs

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	55,863	41,151
Interest on loan from/amount payable to ultimate holding company	42,115	8,809
Less : Amount capitalised	(48,815)	(32,069)
	<u>49,163</u>	<u>17,891</u>

6 Income tax

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Current tax		
Provision for profits tax		
– Hong Kong	33,795	35,494
– Outside Hong Kong	20,082	14,594
	<u>53,877</u>	<u>50,088</u>
Land appreciation tax (“LAT”)	13,973	–
Deferred tax	<u>5,161</u>	<u>(6,914)</u>
	<u>73,011</u>	<u>43,174</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2011: 16.5%) of the estimated assessable profits for the six months ended 30 June 2012. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate rates of taxation currently 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 land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

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\$872,438,000 (six months ended 30 June 2011: HK\$829,988,000) and weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2011: 1,150,681,275).

(b) Diluted earnings per share

There are no diluted potential shares in existence during the six months ended 30 June 2012 and 2011.

8 Dividends

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.21 (six months ended 30 June 2011 : HK\$0.21) per share	241,643	241,643

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 2012 HK\$'000	At 31 December 2011 HK\$'000
Current	125,564	298,078
Less than 3 months past due	17,543	11,430
3 months to 6 months past due	1,015	756
More than 6 months past due	8,108	7,463
Amounts past due	26,666	19,649
Trade receivables	152,230	317,727
Utility and other deposits	43,061	41,743
Other receivables and prepayments	294,383	234,045
	489,674	593,515

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.

10 Trade and other payables

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

	At 30 June 2012 HK\$'000	At 31 December 2011 HK\$'000
Not yet due or on demand	545,583	715,615
Within 3 months	80,836	37,903
3 months to 6 months	1,805	130
More than 6 months	28,009	34,057
Trade payables	656,233	787,705
Rental and other deposits	73,304	72,267
Other payables and accrued expenses	711,022	352,218
Deposits received on sale of properties	508,542	397,559
	1,949,101	1,609,749

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

The Group's total bank borrowings as at 30 June 2012 were HK\$5,935 million, of which HK\$1,607 million was repayable within one year and HK\$4,328 million was repayable beyond one year, represented a slight decrease comparing with 2011 year end. After taking into account cash and cash equivalents of HK\$604.3 million, the net borrowings position of the Group as at 30 June 2012 amounted to HK\$5,330 million, showed an increase of HK\$147.6 million as compared with HK\$5,183 million as at 31 December 2011. Loan from/amount payable to the ultimate holding company amounted to HK\$5,685 million as at 30 June 2012, a slight drop of HK\$93.4 million from HK\$5,778 million as at year end 2011.

The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to shareholders of the Company) stood at 54.4% as at 30 June 2012 (year end 2011: 55.4%).

During the period under review, the Group's development projects in Hong Kong and Mainland China generated substantial cash inflow of approximately HK\$399.7 million and HK\$483.0 million respectively. The cash inflows mainly related to the return of funds from the Group's investment in Foshan and sales/presale proceeds from Mount East in Hong Kong, Le Cove City in Shenyang, Le Cove City in Wuxi and Galaxy Heights in Zhongshan. The disposal of certain non-core investment properties in Hong Kong contributed a further HK\$154.0 million cash inflow for the period ended 30 June 2012.

The Group has actively engaged in a number of development projects in Hong Kong and Mainland China. During the period, the Group has expended a total of approximately HK\$354.0 million and HK\$545.0 million for the Group's development projects in Hong Kong and Mainland China respectively. Also, the Group continued to acquire the ownership of a residential and commercial redevelopment site in Hung Hom and has paid approximately HK\$47.6 million for the period. Furthermore, an additional of approximately HK\$180.3 million was invested by the Group in the Tianjin project for the balance payment of land title and land use right has been successfully obtained in May 2012.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage to minimise its exposure to interest rate fluctuations. When appropriate, relevant hedging arrangement will be considered to manage the exposure.

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

In view of the Group's oil business in Kazakhstan 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. Due to the currency mismatch between the Group's revenues and expenditures in Kazakhstan, we are closely monitoring the fluctuation in the KZT and evaluating its impacts on the Group's financial position. We will use appropriate currency hedging to minimise the currency risks associated with this business if necessary.

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 2012, the Group had commitments in connection with the Group's fixed assets amounted to HK\$102.5 million.

Pledge of Assets

As at balance sheet date, Group properties with a value of HK\$10.7 billion and time deposits of HK\$15.0 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

Contingent Liabilities

The Group has given several guarantees in respect of banking facilities granted to a jointly controlled entity in Mainland China. Guarantees have been provided to the jointly controlled entity amounting to RMB655.0 million, representing a 50% proportional guarantee in respect of RMB1,310 million term loan facilities. The facilities were utilised to the extent of RMB1,050 million as at 30 June 2012.

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 2012. 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 Corporate Governance Code

During the six months ended 30 June 2012, the Company has complied with all code provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities 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 overall operation of the Group, the reason for deviation of which was disclosed in the 2011 Annual Report.

Code Provision A.6.7

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2012.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 3 October 2012 to Thursday, 4 October 2012, 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, 28 September 2012.

Publication of Interim Report

The 2012 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 2012.

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

Hong Kong, 28 August 2012

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