九龍建業有限公司

KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS

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

GROUP RESULTS AND DIVIDENDS

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

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

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

BUSINESS REVIEW

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

Property Sales

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

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

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

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

Property Development

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

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

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

Major Property Projects under Planning and Development

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

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

Major Property Projects under Planning and Development (continued)

Property Project	District/ City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
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%	Fitting-out 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%	Fitting-out work for first phase in progress	By phases from 2013 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%	Fitting-out work for first phase in progress	By phases from 2014 onwards
Galaxy Heights (Zhongshan) 星際豪庭 (中山)	Shiqi District, Zhongshan	8 Xueyuan Road	Residential & commercial	18,334	129,000	70%	Fitting-out work in progress	2013
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Heshun Meijing Shuiku Sector, Lishui Town	Residential & commercial	4,020,743	1,600,000	50%	Construction work in progress	By phases from 2009 onwards
Hedong Project (Tianjin) 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) 君珆花園 (東莞)	Nancheng District, Dongguan	East of Hongwei Road, Xi Ping She Qu	Residential & commercial	32,521	79,700	40%	Foundation work in progress	2014
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	2016/2017
Lotes T + T1	Novos Aterros da Areia Preta	Lotes T + T1, The Orient Pearl District	Residential & commercial	17,900	195,600	58.8%	Building plan has been approved	To be determined

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

Property Investment

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

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

Oil and Gas Business

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

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

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

PROSPECTS

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

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

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

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

CONSOLIDATED RESULTS

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

Consolidated Income Statement
for the year ended 31 December 2012

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

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

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

Consolidated Balance Sheet

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

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

Notes

1 Basis of preparation

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

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

2 Changes in accounting policies

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

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

3 Segment reporting

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

– Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties. Given the importance of property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

– Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

– Oil segment: oil exploration and production.

– Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

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

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

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

(a) Segment results and assets

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

	2012						
		Property development					
	Consolidated *HK$'000*	**Hong Kong** *HK$'000*	**Mainland China** *HK$'000*	**Macau** *HK$'000*	**Property investment** *HK$'000*	**Oil** *HK$'000*	**Others** *HK$'000*
Turnover	**2,555,824**	**1,199,493**	**287,333**	**2,940**	**300,388**	**641,255**	**124,415**
Reportable segment profit	**1,203,605**	**520,015**	**183,991**	**6,441**	**307,669**	**113,144**	**72,345**
Other net income	**123,421**	**–**	**–**	**21,805**	**101,616**	**–**	**–**
Fair value changes on investment properties	**883,550**	**–**	**–**	**–**	**883,550**	**–**	**–**
Share of fair value changes on investment properties of a jointly controlled entity	**120,120**	**–**	**–**	**–**	**120,120**	**–**	**–**
Head office and corporate expenses	**(82,813)**						
Finance costs	**(100,312)**						
Profit before taxation	**2,147,571**						
Share of profits of associated companies	**2,089**	**–**	**(2,495)**	**–**	**–**	**–**	**4,584**
Share of profits of jointly controlled entities	**340,214**	**–**	**183,012**	**–**	**157,202**	**–**	**–**
Interest income	**20,153**	**–**	**–**	**–**	**–**	**–**	**20,153**
Depreciation and amortisation	**(182,267)**	**–**	**–**	**–**	**–**	**(167,800)**	**(14,467)**

	2011						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
Turnover	1,755,293	721,229	467,883	48,102	293,289	115,513	109,277
Reportable segment profit	918,275	348,030	168,653	35,240	308,249	(40,691)	98,794
Other net income	130,607	–	–	–	130,607	–	–
Fair value changes on investment properties	730,178	–	–	–	730,178	–	–
Share of fair value changes on investment properties of a jointly controlled entity	106,040	–	–	–	106,040	–	–
Head office and corporate expenses	(62,763)						
Finance costs	(62,753)						
Profit before taxation	1,759,584						
Share of profits of associated companies	1,950	–	(1,211)	–	–	–	3,161
Share of profits of jointly controlled entities	321,765	–	182,889	–	138,876	–	–
Interest income	22,319	–	–	–	–	–	22,319
Depreciation and amortisation	(36,080)	–	–	–	–	(23,512)	(12,568)
Gain from bargain purchase	23,928	–	23,928	–	–	–	–
Gain on disposal of subsidiaries	157,596	88,089	–	–	–	–	69,507

(a) Segment results and assets *(continued)*

	2012						
		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	**40,607,612**	**7,496,960**	**10,468,146**	**10,313,502**	**10,443,309**	**1,432,869**	**452,826**
Deferred tax assets	**53,233**						
Pledged bank deposits	**35,396**						
Cash and cash equivalents	**564,889**						
Head office and corporate assets	**15,764**						
Consolidated total assets	**41,276,894**						
Interest in associated companies	**2,331,841**	**–**	**2,315,147**	**–**	**–**	**–**	**16,694**
Interest in and amounts due from jointly controlled entities	**2,334,078**	**–**	**1,525,602**	**–**	**808,476**	**–**	**–**

	2011						
		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	37,245,110	5,949,174	9,676,050	10,280,052	9,506,796	1,414,643	418,395
Deferred tax assets	10,314						
Pledged bank deposits	15,000						
Cash and cash equivalents	764,144						
Head office and corporate assets	14,113						
Consolidated total assets	38,048,681						
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	–	–

(b) Geographic information

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

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

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

4 Other net income

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

5 Finance costs

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

6 Profit before taxation

Profit before taxation is arrived at after charging :

	2012	2011
	HK$'000	*HK$'000*
Amortisation of oil exploitation assets *(Remark)*	**11,771**	2,359
Depreciation and amortisation of fixed assets *(Remark)*	**170,496**	33,721
Staff costs *(Remark)*	**203,105**	161,758

Remark :

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

7 Income tax

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

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

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

8 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

9 Dividends

	2012	2011
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK$0.21 (2011: HK$0.21) per share	**241,643**	241,643
Final dividend proposed after the balance sheet date of HK$0.36 (2011: HK$0.33) per share	**414,245**	379,725
	655,888	621,368

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

10 Trade and other receivables

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

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

11 Trade and other payables

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

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

FINANCIAL REVIEW

Financial resources and bank borrowings

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

The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to shareholders of the Company) stayed steady at 56.1% as at 31 December 2012 (2011: 55.4%).

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

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

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

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

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

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

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

Capital commitments

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

Pledge of assets

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

Contingent liabilities

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

HUMAN RESOURCES

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

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

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

OTHER INFORMATION

Review by Audit Committee

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

Compliance with the Corporate Governance Code

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

Code Provision A.2.1

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

Code Provision A.6.7

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

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

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

Annual General Meeting

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

Closure of Register of Members

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

Publication of Annual Report

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

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

Hong Kong, 27 March 2013

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