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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)

2015 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2015, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK\$476 million compared to HK\$299 million for the corresponding period in 2014, an increase of 59.2%.
- Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2015 rose to HK\$253 million, an increase of 40.6% over the same period in 2014. The underlying net interim earnings per share for 2015 were HK\$0.22 compared to HK\$0.16 for 2014.
- Interim dividend per share for 2015 amounted to HK\$0.21 (2014: HK\$0.21).

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2015, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK\$476 million compared to HK\$299 million for the corresponding period in 2014, an increase of 59.2%. The interim earnings per share for 2015 amounted to HK\$0.41 compared to HK\$0.26 for the same period in 2014.

Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2015 rose to HK\$253 million, an increase of 40.6% over the same period in 2014. The underlying net interim earnings per share for 2015 were HK\$0.22 compared to HK\$0.16 for 2014.

The Board of Directors has declared an interim dividend per share for 2015 of HK\$0.21 (2014: HK\$0.21). The interim dividend will be payable on Tuesday, 10 November 2015 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 3 November 2015.

BUSINESS REVIEW

The strong momentum in the primary residential market in Hong Kong, which has largely been driven by persistently-low mortgage interest rates and solid latent demand, continued into the first half of 2015. Overall transaction volumes in the primary residential market remained resilient during the first six months of 2015 despite various restrictive measures remained in place and further credit tightening for properties imposed by the Hong Kong Monetary Authority in February 2015.

Following four interest rate cuts by the central bank and a number of home purchase restrictions being eased recently in most cities across the nation, the property market sentiment in Mainland China appears to be improving considerably in the first-tier and some individual cities where both sales volume and prices have been rising throughout the first half of 2015. However, other cities continued to face challenges from the oversupply problem and a slowing economy.

In Macau, the recession deepened, with real gross domestic product contracting over 24% year-on-year in the first quarter of 2015 after falling approximately 10% in the second half of 2014. The economic downturn was largely attributable to the badly hit gaming industry, with gaming revenue posting persistent declines and it also continued to weigh heavily on the performance of the property market, with sales activity remaining sluggish throughout the first half of 2015.

Development Property Sales

For the period under review, a majority of the Group's recognised property development profit was generated from two residential development projects in Hong Kong, namely MacPherson Residence and Cadogan. Total sales combined from these two development projects amounted to approximately HK\$1.3 billion for the first six months of 2015.

In Mainland China, total presales/sales of the Group's two 100%-owned residential and commercial projects in Shenyang, namely The Gardenia and Le Cove City, amounted to RMB663 million in the first half of 2015. Together with the presale of various properties in Mainland China, including the Group's joint venture project in Foshan, a 40%-owned project in Dongguan and a 60% interest project in Huizhou, the Group's total attributable presales/sales amounted to approximately RMB1.5 billion for the first six months of 2015.

Property Development

As announced on 24 July 2015, the Company entered into a letter of intent with Fulleagle Limited, a connected person, regarding the possible acquisition of the proposed new lot to be known as Tseung Kwan O Town Lot No. 121. This acquisition, if it proceeds, will enhance the Group's landbank in Hong Kong.

As of 30 June 2015, the Group's landbank for development exceeded 5 million sq m of attributable gross floor area ("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. Remaining GFA* (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Upper West	Tai Kok Tsui, Kowloon	Residential & retail	780	6,600	6,600	100%	Superstructure work in progress	2015/2016
South Coast	Aberdeen, Hong Kong	Residential	723	5,900	5,900	100%	Superstructure work in progress	2016/2017
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	34,100	100%	Foundation work in progress	2018/2019
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	11,100	100%	Foundation work in progress	2019/2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	29,200	100%	Preparing for commencement of foundation work	2019
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	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. Remaining 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	Residential & commercial	165,303	712,000	544,800	100%	Construction work for the third and the fourth phases in progress	Third phase 2015; Fourth phase 2018
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	2,000,000	100%	Construction work for the second phase in progress	Second phase: IIA 2015 IIB 2016/2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	400,500	80%	Construction work for the second phase in progress	Second phase 2017
Galaxy Heights (Zhongshan) 星際豪庭 (中山)	Shiqi District, Zhongshan	Residential & commercial	18,334	129,000	129,000	70%	Fitting-out work in progress	2015
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	1,158,400	50%	Construction work for the third phase of high rise residential towers in progress	Third phase of high rise residential towers 2016
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	850,000*	49%	Construction work for the first and the second phases in progress	First phase 2015/2016; Second phase 2017
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	519,900	60%	Superstructure work for the first phase in progress; foundation work for the second phase in progress	First phase 2016; Second phase 2017/2018

Macau

Pearl Horizon	Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	697,600	58.8%	Foundation work in progress	End-December 2018
Lotes T + T1	Novos Aterros da Areia Preta	Residential & commercial	17,900	195,600	195,600	58.8%	Foundation work in progress	End-December 2018

* Refers to approx. total GFA less GFA sold and recognised in the accounts.

* With additional underground GFA of approximately 35,000 sq m for the commercial portion.

Property Investment

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2015 rose to HK\$177 million, an increase of 6.9% over the corresponding period in 2014. Gross rental income generated from Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose 6.1% to HK\$152 million; both retail spaces and offices were nearly fully let as of 30 June 2015.

Oil Business

For the six months ended 30 June 2015, the segment recorded a profit of HK\$8.1 million. Excluding a reversal of provision for property taxes for the Group's oilfield in Kazakhstan, the sector registered a net loss of HK\$6.6 million from its operations in the first half of 2015 compared to an operating loss of HK\$15.2 million for the same period in 2014. While the Group resumed normal oil production in Kazakhstan in late September 2014, the net segment operating loss for the period under review was due to the persistently low oil prices in the first half of 2015. As previously mentioned, Management has been taking all necessary steps to seek a long-term solution for the gas flaring requirements for its South Alibek Oilfield in Kazakhstan. While various options are currently under consideration, the Group has submitted the application for renewal of its current gas flaring permit which will expire on 31 August 2015.

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

PROSPECTS

As there has been growing demand for small-sized residential units in Hong Kong, the Group is accelerating the pace for launching such type of residential projects. It will launch the presale of Upper East, its wholly-owned high-end residential development project in Hung Hom shortly, with total residential units amounting to 1,008 units and the average saleable area of approximately 25 sq m per unit. The Group will then launch the presale of its residential project in Aberdeen, namely South Coast, with total residential units of 150 units and the average saleable area of approximately 30 sq m per unit.

In Mainland China, the slowing economy will likely further postpone the recovery of its overall property markets. Although the Group is facing an increasingly challenging market environment, its overall property sales are rising steadily. The Group intends to explore good development projects in the first-tier cities.

In Macau, as the current downturn in the gaming industry will likely persist in the second half of 2015, the Macau economy is expected to stay weak and hence the property market is unlikely to recover in the short term. Nevertheless, as previously mentioned, the Group has presold over 3,000 residential units of its two major high-end residential development projects in the Orient Pearl District over the past few years, with contracted presales exceeding HK\$20 billion. Therefore, the short-term fluctuations in the residential property market do not adversely affect the Group's two development projects under construction. The Group will continue to expedite construction work of its two development projects, aiming for completion and handover to home buyers in 2018.

Looking ahead, the Group's operating income for the second half of 2015 will be mainly generated from its various development projects in Hong Kong. In addition, the Group expects its property investment portfolios in Hong Kong and Macau, as well as its cold storage and ice manufacturing business operated by Polytec Asset, will continue to provide stable income to the Group in the second half of 2015. The Group's oil business in Kazakhstan is expected to record a slight net operating loss for 2015 as oil prices will likely stay at the current exceptionally low levels for the remaining of 2015.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2015 together with the comparative figures for 2014 are as follows:

Consolidated Income Statement

	Note	Six months ended 30 June	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Turnover	3	1,759,214	906,713
Cost of sales		(1,092,163)	(452,373)
Other revenue		10,091	20,281
Other net loss	4	–	(4,533)
Depreciation and amortisation		(8,969)	(8,480)
Staff costs		(95,465)	(84,560)
Selling, marketing and distribution expenses		(186,416)	(67,867)
Other operating expenses		(38,473)	(44,092)
Fair value changes on investment properties		301,389	106,163
Profit from operations		649,208	371,252
Finance costs	5	(85,308)	(73,029)
Share of profits/(losses) of associated companies		12,723	(4,940)
Share of profits of joint ventures		59,690	67,828
Profit before taxation		636,313	361,111
Income tax	6	(145,361)	(58,604)
Profit for the period		490,952	302,507
Attributable to:			
Shareholders of the Company		476,046	298,753
Non-controlling interests		14,906	3,754
Profit for the period		490,952	302,507
Earnings per share – Basic/Diluted	7	HK\$0.41	HK\$0.26

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>490,952</u>	<u>302,507</u>
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of accounts of overseas subsidiaries	1,258	(37,269)
Changes in fair value of available-for-sale investments	—	(1,589)
Changes in fair value of interests in property development	95	313,903
Share of other comprehensive income of joint ventures and associated companies	<u>1,282</u>	<u>(36,458)</u>
	<u>2,635</u>	<u>238,587</u>
Total comprehensive income for the period	<u><u>493,587</u></u>	<u><u>541,094</u></u>
Attributable to:		
Shareholders of the Company	476,343	459,381
Non-controlling interests	<u>17,244</u>	<u>81,713</u>
Total comprehensive income for the period	<u><u>493,587</u></u>	<u><u>541,094</u></u>

Consolidated Statement of Financial Position

		At 30 June 2015	At 31 December 2014
	Note	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current assets			
Fixed assets			
– Investment properties		10,971,969	10,646,498
– Leasehold land held for own use		206,582	209,884
– Other property, plant and equipment		802,340	837,103
		11,980,891	11,693,485
Oil exploitation assets		64,093	66,257
Interests in property development		12,227,515	12,227,420
Interest in joint ventures		2,991,308	2,953,007
Interest in associated companies		2,289,389	2,282,764
Loans and advances		94,106	54,221
Deferred tax assets		112,630	109,309
		29,759,932	29,386,463
Current assets			
Inventories		16,925,020	17,079,825
Trade and other receivables	9	1,202,933	744,482
Loans and advances		15,973	15,985
Amount due from a joint venture		48,042	40,009
Financial investments		–	21,945
Pledged bank deposit		15,000	15,000
Cash and cash equivalents		443,320	1,157,340
		18,650,288	19,074,586

	<i>Note</i>	At 30 June 2015 <i>HK\$'000</i> <i>(unaudited)</i>	At 31 December 2014 <i>HK\$'000</i> <i>(audited)</i>
Current liabilities			
Trade and other payables	10	4,729,239	5,375,265
Amounts due to non-controlling interests		200,000	200,000
Amount due to a joint venture		788,093	787,838
Bank loans		213,400	1,343,400
Current taxation		377,331	332,703
		<u>6,308,063</u>	<u>8,039,206</u>
Net current assets		<u>12,342,225</u>	<u>11,035,380</u>
Total assets less current liabilities		42,102,157	40,421,843
Non-current liabilities			
Loans from ultimate holding company		7,194,605	6,778,980
Bank loans		7,687,344	6,574,346
Other payables		37,075	38,679
Deferred tax liabilities		1,030,499	950,651
		<u>15,949,523</u>	<u>14,342,656</u>
NET ASSETS		<u>26,152,634</u>	<u>26,079,187</u>
Capital and reserves			
Share capital		8,417,472	8,417,472
Reserves		<u>14,483,199</u>	<u>14,421,101</u>
Total equity attributable to the shareholders of the Company		22,900,671	22,838,573
Non-controlling interests		<u>3,251,963</u>	<u>3,240,614</u>
TOTAL EQUITY		<u>26,152,634</u>	<u>26,079,187</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 2014 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2015 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 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 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 sale of properties and crude oil and interest income.

Reporting 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 2015							
	Property development				Property investment	Oil	Others
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Turnover	1,759,214	1,261,101	91,658	–	177,349	132,002	97,104
Reportable segment profit	446,900	247,668	(28,495)	2,317	194,790	8,096	22,524
Fair value changes on investment properties	301,389	–	–	–	301,389	–	–
Share of fair value changes on investment properties of a joint venture	19,360	–	–	–	19,360	–	–
Head office and corporate expenses	(46,028)						
Finance costs	(85,308)						
Profit before taxation	636,313						
Share of profits of associated companies	12,723	–	12,558	–	–	–	165
Share of profits of joint ventures	59,690	–	14,461	–	45,229	–	–
Six months ended 30 June 2014							
	Property development				Property investment	Oil	Others
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Turnover	906,713	439,122	190,767	12,000	165,836	35,209	63,779
Reportable segment profit	357,396	129,911	34,866	11,533	180,787	(15,161)	15,460
Fair value changes on investment properties	106,163	–	–	–	106,163	–	–
Share of fair value changes on investment properties of a joint venture	18,920	–	–	–	18,920	–	–
Head office and corporate expenses	(48,339)						
Finance costs	(73,029)						
Profit before taxation	361,111						
Share of losses of associated companies	(4,940)	–	(5,514)	–	–	–	574
Share of profits of joint ventures	67,828	–	27,150	–	40,678	–	–

3 Segment reporting (continued)

At 30 June 2015							
	Property development				Property investment	Oil	Others
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	47,811,390	8,782,854	14,510,303	10,994,751	12,229,960	880,278	413,244
Deferred tax assets	112,630						
Pledged bank deposit	15,000						
Cash and cash equivalents	443,320						
Head office and corporate assets	27,880						
Consolidated total assets	48,410,220						
Interest in associated companies	2,289,389	–	2,262,617	–	–	–	26,772
Interest in and amount due from joint ventures	3,039,350	–	1,798,119	–	1,241,231	–	–
At 31 December 2014							
	Property development				Property investment	Oil	Others
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	47,153,636	9,115,172	13,867,599	10,985,703	11,882,063	910,064	393,035
Deferred tax assets	109,309						
Pledged bank deposit	15,000						
Cash and cash equivalents	1,157,340						
Head office and corporate assets	25,764						
Consolidated total assets	48,461,049						
Interest in associated companies	2,282,764	–	2,256,158	–	–	–	26,606
Interest in and amount due from joint ventures	2,993,016	–	1,775,101	–	1,217,915	–	–

4 Other net loss

Other net loss for six months ended 30 June 2014 represented a fair value loss on held for trading listed investments of HK\$4,533,000.

5 Finance costs

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Interest on bank loans and overdrafts	67,334	53,702
Interest on loans from ultimate holding company	57,418	71,707
Less: Amount capitalised	(39,444)	(52,380)
	85,308	73,029

6 Income tax

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Current tax		
Provision for profits tax		
– Hong Kong	65,448	42,568
– Outside Hong Kong	<u>2,380</u>	<u>14,647</u>
	67,828	57,215
Land appreciation tax (“LAT”)	1,068	2,395
Deferred tax	<u>76,465</u>	<u>(1,006)</u>
	<u>145,361</u>	<u>58,604</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2014: 16.5%) of the estimated assessable profits for the six months ended 30 June 2015. 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 the 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.

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\$476,046,000 (six months ended 30 June 2014: HK\$298,753,000) and the weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2014: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2015 and 2014.

8 Dividends

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.21 (six months ended 30 June 2014: HK\$0.21) per share	<u>241,643</u>	<u>241,643</u>

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 2015 HK\$'000	At 31 December 2014 HK\$'000
Current and less than 3 months	786,120	426,592
3 months to 6 months	19	178
More than 6 months	7,420	6,239
Trade receivables	793,559	433,009
Utility and other deposits	41,255	42,527
Other receivables and prepayments	368,119	268,946
	1,202,933	744,482

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.

10 Trade and other payables

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

	At 30 June 2015 HK\$'000	At 31 December 2014 HK\$'000
Not yet due or on demand	1,196,549	2,576,310
Within 3 months	22,074	35,308
3 months to 6 months	315	226
More than 6 months	28,752	28,743
Trade payables	1,247,690	2,640,587
Rental and other deposits	79,179	78,268
Other payables and accrued expenses	613,531	559,018
Deposits received on sale of properties	2,788,839	2,097,392
	4,729,239	5,375,265

11 Oil production assets and oil exploitation assets

As at 30 June 2015, the Group has oil production assets of HK\$747,391,000 (at 31 December 2014: HK\$778,116,000) (included in fixed assets) and oil exploitation assets of HK\$64,093,000 (at 31 December 2014: HK\$66,257,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

As at 30 June 2015, the Group reassessed the operation and the risk exposures of its oil exploration and production business as a whole. As the 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 2015.

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 August 2015. Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a certain period so as to enable it to continue to conduct normal crude oil production and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of the 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 advice received from its technical experts and external legal advisor and the alternatives under consideration, the Group considers that there is no indication that the new gas flaring permits will not be obtained.

Up to the date of approval of this announcement, Caspi Neft TME has obtained the approvals from the Ecology Committee and the Geology Committee of the Kazakhstan Government which are necessarily required for applying for the gas flaring permit. Further approvals from other local authorities are also needed to obtain the gas flaring permit which allows the Group to continue normal crude oil production after 31 August 2015.

FINANCIAL REVIEW

Financial resources and bank borrowings

As at 30 June 2015, the Group had total bank borrowings of HK\$7,900 million (31 December 2014: HK\$7,918 million), with HK\$213 million being repayable within one year and HK\$7,687 million being repayable after one year. After taking into account cash and cash equivalents of HK\$443 million, the Group's net borrowings position was HK\$7,457 million as at 30 June 2015, which increased by HK\$696 million compared to 31 December 2014. Loans from ultimate holding company increased by HK\$416 million since 31 December 2014 and amounted to HK\$7,195 million as at 30 June 2015.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loans from ultimate holding company over equity attributable to shareholders of the Company) was 64.0% as at 30 June 2015 (31 December 2014: 59.3%).

During the period under review, the Group continued to boost the sale of two completed projects in Hong Kong, namely MacPherson Residence and Cadogan, which contributed substantial cash inflows to the Group. For the six months ended 30 June 2015, the Group has recorded cash inflows mainly from sales/presales from various development projects in Hong Kong and Mainland China of approximately HK\$937 million and HK\$781 million respectively.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$856 million for construction costs during the period. Furthermore, the Group has settled the remaining balance of the land premium of HK\$1,557 million for the successful tender of the land situated at Lei Yue Mun, Hong Kong. The handover of the land was completed in mid-January 2015 which has further enhanced the land portfolio of the Group in Hong Kong.

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"). 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 respect of the Group's oil business in Kazakhstan, the Group has been exposed to the exchange fluctuations in 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. However, the recent significant depreciation of KZT, which was allowed to float freely on 20 August 2015, and hence a possible reduction of local expenses may help partially offset the expected loss incurred during the year. As at 30 June 2015, 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 2015, the Group had commitments in connection with the Group's fixed assets amounting to HK\$70 million.

Pledge of assets

As at 30 June 2015, properties having a value of HK\$12,143 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 the joint venture amounting to HK\$722 million, representing a 50% proportional guarantee in respect of HK\$1,444 million term loan facilities. The facilities were utilised to the extent of HK\$1,316 million as at 30 June 2015.

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 2015. 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 2015, 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 2014 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 27 May 2015 (the "AGM"), other than two Independent Non-executive Directors who were unable to attend the AGM as they had other business engagements 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 2015.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 2 November 2015 to Tuesday, 3 November 2015, 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, 30 October 2015.

Publication of Interim Report

The 2015 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 24 September 2015.

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

Hong Kong, 26 August 2015

As at the date of this announcement, the Directors of the Company are Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai and Mr Or Pui Kwan 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.