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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)

2016 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2016, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK\$291 million compared to HK\$476 million for the corresponding period in 2015, a decrease of 38.9%.
- Excluding revaluation from the Group's investment properties, underlying net profit for the first half of 2016 rose to HK\$268 million, an increase of 5.9% over the same period in 2015. The underlying net interim earnings per share for 2016 were HK\$0.23 compared to HK\$0.22 for 2015.
- Interim dividend per share for 2016 amounted to HK\$0.21 (2015: HK\$0.21).

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2016, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK\$291 million compared to HK\$476 million for the corresponding period in 2015, a decrease of 38.9%. The interim earnings per share for 2016 amounted to HK\$0.25 compared to HK\$0.41 for the same period in 2015.

Excluding revaluation from the Group's investment properties, underlying net profit for the first half of 2016 rose to HK\$268 million, an increase of 5.9% over the same period in 2015. The underlying net interim earnings per share for 2016 were HK\$0.23 compared to HK\$0.22 for 2015.

The Board of Directors has declared an interim dividend per share for 2016 of HK\$0.21 (2015: HK\$0.21). The interim dividend will be payable on Tuesday, 13 December 2016 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 29 November 2016.

BUSINESS REVIEW

In Hong Kong, the recovery in the residential property market appears to be underway, with overall transaction volume having picked up significantly since April 2016, and transacted prices gradually rising from their lows at the beginning of 2016, and likely having bottomed. The rebound in the transaction volume has been particularly evident in the primary residential market mainly attributable to the improving market sentiment due to slower than expected interest hikes, and the introduction of aggressive incentives by property developers to boost their property sales.

In Mainland China, total nationwide residential property sales increased substantially, rising 44% year-on-year in the first six months of 2016 based on the official data. The pickup in housing activity since the start of 2016 was mainly driven by the government's destocking policy. However, the increase in transaction volume and the gain in transacted prices have been largely seen in the first-tier and some of the second-tier cities over the past few months. The sales activities in other third- and fourth-tier cities seemed to be mixed, with some of the regions still having severe destocking pressures.

In Macau, the residential property market seems to be bottoming out, with overall transacted residential prices having stabilised in the first quarter and rising 7.6% quarter-on-quarter in the second quarter of 2016. More encouragingly, residential transaction volume rebounded significantly, rising approximately 40% year-on-year in the first half of 2016.

Development Property Sales

In Hong Kong, the Group obtained the Occupation Permit for Upper West, its 100%-owned project in Tai Kok Tsui, in early February 2016, with total sales proceeds of approximately HK\$672 million being recognised for the first six months of 2016. For the period under review, the Group continued to focus on the launch for the remaining residential units of its four projects in Hong Kong Island and Kowloon and its property sales have been benefitted from the recent improving market sentiment.

In Mainland China, in light of the improving sentiment in housing market and rising demand for new homes, the Group launched additional residential units of its various projects for presale/sale in the first half of 2016 and they were well received by the market. Total presales/sales generated from the Group's projects, including the Group's joint venture project in Foshan, a 49%-owned project in Tianjin, and a 60% interest project in Huizhou exceeded RMB3.5 billion for the period under review, with presales/sales attributable to the Group of approximately RMB2.3 billion for the first half of 2016 compared to RMB1.5 billion in the same period of 2015.

In Macau, the superstructure work of the Lotes T + T1 development project in Macau is progressing smoothly. For the period under review, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for the period ended 30 June 2016.

With respect to the Lote P development project (Pearl Horizon) in Macau, the piling work was completed. However, due to a significant delay in granting various requisite approvals and permits for the project over the past years, the overall construction work could not be completed before the expiry date of the related land concession. An application for an extension of the expiry date for the land concession was made to relevant government departments but it was declined and therefore the construction work was suspended. Polytex Corporation Limited (“PCL”), the registered owner of the property of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has therefore applied to the Courts of Macau to claim for compensation of time. If the applications are ultimately declined, the Macau Government would have a right to resume the land without any compensation to the owner of the land. Nevertheless, based on the opinions provided by the Group’s legal counsel, PCL has strong legal grounds to obtain a confirmation from the Court of Macau that the administrative delays had been caused by the relevant government authorities and therefore PCL is entitled to obtain compensation of time to enable it to complete the project. Currently, the Group is still awaiting a hearing date to be fixed by the Courts of Macau for the legal proceedings.

Property Development

The Group is actively negotiating with the Lands Department about the land premium for its site in Tseung Kwan O and a land exchange for the proposed new lot to be known as Tseung Kwan O Town Lot No. 121 by surrendering Junk Bay Town Lot No. 2 and the Extension thereto and Tseung Kwan O Town Lot No. 22 to the Hong Kong Government.

As of 30 June 2016, the Group’s landbank for development amounted to approximately 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 East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	34,100	100%	Basement excavation in progress	2018
South Coast	Aberdeen, Hong Kong	Residential	723	5,900	5,900	100%	Superstructure work in progress	2016
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	11,100	100%	Foundation work in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	29,200	100%	Foundation work completed	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

Note: The property project in Hong Kong, namely Upper West, was completed during the period under review.

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

City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	839,800*	49%	Construction work for the second phases in progress	Second phase 2017
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	530,300	100%	Construction work for the fourth phase in progress	Fourth phase 2018
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	1,851,700	100%	Construction work for the second phase in progress	Second phase IIB 2016/2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	356,500	80%	Construction work for the second phase in progress	Second phase 2017
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	437,900	60%	Foundation work for the second phase in progress	Second phase 2017/2018
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	1,093,200	50%	Construction work for the third phase of high rise residential towers in progress	Third phase of high rise residential towers 2016

Macau

Pearl Horizon	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	697,600	58.8%	Suspended	To be determined
Lotes T + T1	Lotes T + T1, Novos Aterros da Areia Preta	Residential & commercial	17,900	195,600	195,600	58.8%	Superstructure work in progress	Mid-2017

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

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

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2016 fell to HK\$169 million, a decrease of 4.5% over the corresponding period in 2015. Gross rental income generated from Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, dropped 5.3% to HK\$144 million. The overall occupancy rate for the property investment portfolio was over 90% as of 30 June 2016.

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

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

Property Investment in Macau

For the period under review, the Group's share of gross rental income generated from its investment properties rose to HK\$28.9 million, an increase of 26.4% over the same period in 2015. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK\$26.8 million for the first half of 2016 compared to HK\$21.3 million for the corresponding period in 2015.

Oil

For the six months ended 30 June 2016, the segment recorded a loss of HK\$6.9 million. The loss was due to the further decline in crude oil prices in the first quarter, with the Brent crude oil prices having reached a recent low of approximately US\$26 per barrel in January 2016. However, such loss was partially offset by the reduction of local expenses arising from the significant depreciation of the Tenge, the Kazakhstan currency, which was allowed to float freely on 20 August 2015.

The Group will continue to work out a solution to tackle the gas flaring issue of the oilfield in Kazakhstan before the permits expire on 31 December 2016. Various viable options are currently being evaluated.

Ice Manufacturing and Cold Storage

During the period under review, total operating profit for the combined cold storage and ice manufacturing segment rose to HK\$14.8 million, an increase of 32.2% over the same period in 2015. The increase in operating profit was attributable to an improvement in the ice manufacturing sector.

PROSPECTS

In Hong Kong, with the pace of rate hikes in the US relatively slow and interest rates being expected to stay low for an extended period of time, the recovery in the primary, as well as the secondary, residential property markets in Hong Kong will likely be supported. However, despite the pickup in sales activity in overall residential market, any increase in prices will likely be mild as they are expected to be suppressed by a seemingly substantial increase in supply of the residential units in the coming few years. In view of improving market sentiment, the Group will continue to promote the sale for the remaining units of its four development projects in Hong Kong in the rest of 2016 and will launch its new high-end residential project in Pok Fu Lam Road in early next year.

In Mainland China, in view of recent rapidly rising transacted housing prices in the first-tier and some of the second-tier cities, the government is expected to tighten its housing credit policies to prevent the risks of a potential bubble in the property market emerging. Nevertheless, with prevailing market sentiment still favourable, the Group will continue to expedite the sale of residential units for the second half of 2016, aiming to lock in the future results for the Group. In addition, the Group has been actively exploring investment opportunities in the first-tier cities over the past year, with some of the projects likely to be concluded in the near future.

In Macau, the construction work of the Lotes T + T1 development project is being expedited and the progress is satisfactory, with topping out of the superstructure being expected before end-December 2016. The Group is making every effort to ensure the construction work to be completed and an occupation permit to be obtained by the middle of 2017. With respect to the lawsuit relating the Lote P development project (Pearl Horizon) in Macau, it is expected that a hearing date will be fixed by the Courts of Macau in the near future. The construction work will be resumed subject to and as soon as practicable after a favourable judgement from the Court and the relevant approvals from the government. It will endeavour to complete the project and deliver the flats to the waiting buyers as soon as it possibly can.

Looking ahead, the Group's core income for the second half of 2016 will be mainly generated from its property development projects in Hong Kong and Mainland China. In addition, the Group expects its property investment portfolios in Hong Kong and Macau, as well as its ice manufacturing and cold storage business, will continue to generate stable income in the second half of 2016. If the crude oil prices hover at the current low levels in the rest of the year, the Group's oil business in Kazakhstan will hardly make any contribution to its earnings in the second half of 2016.

The Group is currently facing a tough challenge in Macau. I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow directors for their support and all staff for their dedication, hard work and contribution during these critical times.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2016 together with the comparative figures for 2015 are as follows:

Consolidated Income Statement

	Note	Six months ended 30 June	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	2,760,097	1,759,214
Cost of sales		(2,194,952)	(1,092,163)
Other revenue		9,662	10,091
Other net income		596	—
Depreciation and amortisation		(8,644)	(8,969)
Staff costs		(95,591)	(95,465)
Selling, marketing and distribution expenses		(120,036)	(186,416)
Other operating expenses		(55,790)	(38,473)
Fair value changes on investment properties		(10,832)	301,389
Profit from operations		284,510	649,208
Finance costs	4	(66,105)	(85,308)
Share of profits of associated companies		45,883	12,723
Share of profits of joint ventures		70,685	59,690
Profit before taxation		334,973	636,313
Income tax	5	(36,074)	(145,361)
Profit for the period		298,899	490,952
Attributable to :			
Shareholders of the Company		290,979	476,046
Non-controlling interests		7,920	14,906
Profit for the period		298,899	490,952
Earnings per share - Basic/Diluted	6	HK\$0.25	HK\$0.41

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit for the period	<u>298,899</u>	<u>490,952</u>
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(80,608)	1,258
Changes in fair value of interests in property development	(249,270)	95
Share of other comprehensive income of joint ventures and associated companies	<u>(116,150)</u>	<u>1,282</u>
	<u>(446,028)</u>	<u>2,635</u>
Total comprehensive income for the period	<u><u>(147,129)</u></u>	<u><u>493,587</u></u>
Attributable to :		
Shareholders of the Company	(70,553)	476,343
Non-controlling interests	<u>(76,576)</u>	<u>17,244</u>
Total comprehensive income for the period	<u><u>(147,129)</u></u>	<u><u>493,587</u></u>

Consolidated Statement of Financial Position

	<i>Note</i>	At 30 June 2016 <i>HK\$'000</i> <i>(unaudited)</i>	At 31 December 2015 <i>HK\$'000</i> <i>(audited)</i>
Non-current assets			
Investment properties		11,479,506	11,156,633
Leasehold land held for own use		199,977	203,279
Other property, plant and equipment	<i>11</i>	598,130	616,389
		12,277,613	11,976,301
Oil exploitation assets	<i>11</i>	48,504	49,325
Interests in property development	<i>8</i>	11,865,601	12,114,871
Interest in joint ventures		3,107,891	3,140,725
Interest in associated companies		1,891,957	2,137,106
Loans and advances	<i>9</i>	1,329,887	895,742
Deferred tax assets		113,921	116,244
		30,635,374	30,430,314
Current assets			
Inventories		14,528,068	16,273,680
Trade and other receivables	<i>9</i>	1,449,584	1,495,488
Loans and advances	<i>9</i>	34,225	29,760
Amount due from a joint venture		64,285	56,209
Pledged bank deposit		15,000	15,000
Cash and bank balances		1,569,872	1,176,439
		17,661,034	19,046,576

	<i>Note</i>	At 30 June 2016 <i>HK\$'000</i> <i>(unaudited)</i>	At 31 December 2015 <i>HK\$'000</i> <i>(audited)</i>
Current liabilities			
Trade and other payables	10	6,424,855	6,173,325
Amounts due to non-controlling interests		200,000	200,000
Amount due to a joint venture		727,179	741,841
Bank loans		1,437,600	1,796,600
Current taxation		132,807	161,144
		<u>8,922,441</u>	<u>9,072,910</u>
Net current assets		<u>8,738,593</u>	<u>9,973,666</u>
Total assets less current liabilities		39,373,967	40,403,980
Non-current liabilities			
Loan from ultimate holding company		3,298,775	5,587,640
Loan from a fellow subsidiary		1,253,142	851,803
Bank loans		8,390,908	6,910,458
Other payables		21,953	23,342
Deferred tax liabilities		887,304	927,126
		<u>13,852,082</u>	<u>14,300,369</u>
NET ASSETS		<u>25,521,885</u>	<u>26,103,611</u>
Capital and reserves			
Share capital		8,417,472	8,417,472
Reserves		<u>13,980,373</u>	<u>14,476,678</u>
Total equity attributable to the shareholders of the Company		22,397,845	22,894,150
Non-controlling interests		<u>3,124,040</u>	<u>3,209,461</u>
TOTAL EQUITY		<u>25,521,885</u>	<u>26,103,611</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 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 December 2015 that is included in this announcement of interim results as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Changes in accounting policies

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Segment reporting

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

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

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

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

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

3 Segment reporting (continued)

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

Six months ended 30 June 2016							
	Property development				Property investment	Oil	Others
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Revenue	<u>2,760,097</u>	<u>891,809</u>	<u>1,560,738</u>	<u>–</u>	<u>169,388</u>	<u>48,366</u>	<u>89,796</u>
Reportable segment profit	439,138	122,786	98,100	1,790	195,149	(6,941)	28,254
Other net income	596	–	–	–	596	–	–
Fair value changes on investment properties	(10,832)	–	–	–	(10,832)	–	–
Share of fair value changes on investment properties of a joint venture	23,760	–	–	–	23,760	–	–
Head office and corporate expenses	(51,584)						
Finance costs	<u>(66,105)</u>						
Profit before taxation	<u>334,973</u>						
Share of profits of associated companies	45,883	–	45,564	–	–	–	319
Share of profits of joint ventures	70,685	–	14,887	–	55,798	–	–
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			
Revenue	<u>1,759,214</u>	<u>1,261,101</u>	<u>91,658</u>	<u>–</u>	<u>177,349</u>	<u>132,002</u>	<u>97,104</u>
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	<u>(85,308)</u>						
Profit before taxation	<u>636,313</u>						
Share of profits of associated companies	12,723	–	12,558	–	–	–	165
Share of profits of joint ventures	59,690	–	14,461	–	45,229	–	–

3 Segment reporting (continued)

At 30 June 2016							
	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	46,573,131	8,218,309	12,550,316	10,611,738	12,901,711	629,582	1,661,475
Deferred tax assets	113,921						
Pledged bank deposit	15,000						
Cash and bank balances	1,569,872						
Head office and corporate assets	24,484						
Consolidated total assets	48,296,408						
Interest in associated companies	1,891,957	–	1,864,601	–	–	–	27,356
Interest in and amounts due from joint ventures	3,172,176	–	1,751,803	–	1,420,373	–	–
At 31 December 2015							
	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	48,142,902	8,849,947	13,976,353	10,901,324	12,558,019	636,411	1,220,848
Deferred tax assets	116,244						
Pledged bank deposit	15,000						
Cash and bank balances	1,176,439						
Head office and corporate assets	26,305						
Consolidated total assets	49,476,890						
Interest in associated companies	2,137,106	–	2,109,334	–	–	–	27,772
Interest in and amounts due from joint ventures	3,196,934	–	1,800,709	–	1,396,225	–	–

4 Finance costs

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest on bank loans and overdrafts	68,042	67,334
Interest on loans from ultimate holding company and a fellow subsidiary	44,695	57,418
Less : Amount capitalised	(38,246)	(39,444)
	74,491	85,308
Less: Interest expenses included as other operating expenses	(8,386)	–
	66,105	85,308

5 Income tax

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
Provision for profits tax		
– Hong Kong	37,171	65,448
– Outside Hong Kong	<u>13,329</u>	<u>2,380</u>
	50,500	67,828
Land appreciation tax (“LAT”)	19,338	1,068
Deferred tax	<u>(33,764)</u>	<u>76,465</u>
	<u>36,074</u>	<u>145,361</u>

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) of the estimated assessable profits for the six months ended 30 June 2016. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in relevant jurisdictions.

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

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$290,979,000 (six months ended 30 June 2015: HK\$476,046,000) and the weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2015: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2016 and 2015.

7 Dividends

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Interim dividend declared after the interim period of HK\$0.21 (six months ended 30 June 2015: 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.

8 Interests in property development

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

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

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

As the outcome of these court proceedings is still uncertain, management of the Company have taken into account all available evidence, including the opinion of legal experts, in preparing the discounted cash flow model in order to assess the fair value of the project. Management of the Company believe that PCL has strong legal grounds to obtain a favourable judgment so that the Lote P development project can be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgment being obtained and relevant approvals being given by the Macau SAR Government. No impairment for the interests in property development was considered necessary at 30 June 2016.

In respect of the development project at Lotes T+T1, the expiry date of the land concession is 5 July 2017. Based on the current status of the development, management of the Company consider that the Lotes T+T1 project will be completed before the expiry date.

9 Trade and other receivables/Loans and advances

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

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Current	2,262,352	1,880,510
Within 3 months	64,811	28,368
3 months to 6 months	246	1,693
More than 6 months	14,244	15,386
Trade receivables and loans and advances	2,341,653	1,925,957
Utility and other deposits	40,136	36,144
Other receivables and prepayments	431,907	458,889
	2,813,696	2,420,990

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

10 Trade and other payables

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

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Not yet due or on demand	1,162,003	1,173,878
Within 3 months	44,187	54,428
3 months to 6 months	2	121
More than 6 months	26,643	27,295
Trade payables	1,232,835	1,255,722
Rental and other deposits	79,452	77,179
Other payables and accrued expenses	908,535	608,355
Deposits received on sale of properties	4,204,033	4,232,069
	6,424,855	6,173,325

11 Oil production assets and oil exploitation assets

As at 30 June 2016, the Group had oil production assets of HK\$548,842,000 (at 31 December 2015: HK\$564,417,000) (included in other property, plant and equipment) and oil exploitation assets of HK\$48,504,000 (at 31 December 2015: HK\$49,325,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group), in Kazakhstan will expire on 31 December 2016. Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 31 December 2016 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on advice received from its technical experts and external legal advisor and the alternatives under consideration, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2016, 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 2016. The recoverable amounts of oil production and exploitation assets were determined based on value in use calculations applying a discount rate of 12.5% (31 December 2015: 12.5%).

FINANCIAL REVIEW

Financial resources and bank borrowings

The Group had total bank borrowings of HK\$9,829 million as at 30 June 2016 (31 December 2015: HK\$8,707 million), with HK\$1,438 million being repayable within one year and HK\$8,391 million being repayable after one year. Taking into account of cash and cash equivalents with an amount of HK\$1,570 million, the Group's net borrowings position was HK\$8,259 million as at 30 June 2016, which represented an increase by HK\$728 million compared to 31 December 2015. Total loans from ultimate holding company and a fellow subsidiary recorded a substantial decrease by HK\$1,887 million since 31 December 2015 and amounted to HK\$4,552 million as at 30 June 2016.

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) was slightly decreased to 57.2% as at 30 June 2016 (31 December 2015 : 61.0%).

In January 2016, the Group further expanded its land bank by acquiring of a subsidiary from the ultimate holding company at a total consideration of HK\$184 million. The major asset of the acquired subsidiary is a land located in Tseung Kwan O and the Group is now under the process of land exchange application.

During the period under review, the Group continued to launch the sale for the remaining units of the property projects in Hong Kong, which contributed further cash inflows of HK\$1,013 million to the Group. Furthermore, the Group has recorded approximately of HK\$1,550 million cash inflows mainly from sales/presales of various development projects in Mainland China.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$900 million for construction costs during the period.

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

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 30 June 2016, 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 2016, the Group had commitments in connection with the Group's investment properties amounting to HK\$30 million.

Pledge of assets

As at 30 June 2016, properties having a value of HK\$18,298 million and bank deposits of HK\$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

Contingent liabilities

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK\$1,106 million, representing a 50% proportional guarantee in respect of HK\$2,212 million term loan facilities. The facilities were utilised to the extent of HK\$1,931 million as at 30 June 2016.

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 2016. 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 2016, 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 2015 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 2016 (the "AGM"), other than an Independent Non-executive Director who was unable to attend the AGM as he was overseas at the time.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2016.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 28 November 2016 to Tuesday, 29 November 2016, 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, 25 November 2016.

Publication of Interim Report

The 2016 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 28 September 2016.

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

Hong Kong, 24 August 2016

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