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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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011

HIGHLIGHTS

- Excluding revaluation gains from its investment properties, the Group's underlying net profit rises to HK\$807 million, an increase of 16.8% over 2010. The underlying earnings per share amount to HK\$0.70 in 2011 compared to HK\$0.60 in 2010.
- Full year dividend per share for 2011 amounts to HK\$0.54, an increase of 3.8% over 2010, with a final dividend per share of HK\$0.33.
- Over the past few years, the Group has built a sizeable and quality development landbank across the Greater China region, Hong Kong, Mainland China and Macau, at a relatively competitive cost, with the attributable GFA exceeding 5 million sq m. We will strive to expedite the development of our landbank, with the aim of achieving consistent earnings growth in the coming years.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2011, net profit attributable to shareholders of the Company amounted to HK\$1,526 million compared to HK\$2,128 million in 2010. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2011 amounted to HK\$807 million, an increase of 16.8% over 2010. The underlying net earnings per share for 2011 were HK\$0.70 compared to HK\$0.60 in 2010.

The Board of Directors recommends the payment of a final dividend of HK\$0.33 per share (2010: HK\$0.32) for the year ended 31 December 2011. Together with the 2011 interim dividend of HK\$0.21 per share (2010: HK\$0.20), the full year dividend for 2011 amounts to HK\$0.54 per share (2010: HK\$0.52).

The final dividend will be paid on 19 July 2012 to shareholders whose names appear on the Register of Members of the Company on 10 July 2012, subject to the approval of shareholders at the Annual General Meeting.

BUSINESS REVIEW

With various property cooling and restrictive measures announced in Hong Kong, Mainland China and Macau in early 2011, overall transaction volumes in all three property markets have declined considerably. In particular, the residential transaction volumes in those Mainland China cities affected by implementation of the home purchase restriction policy have plummeted and with inventory building rapidly in the fourth quarter of 2011, overall transaction prices have generally remained suppressed.

In 2011, despite the challenging market environment, the Group recorded relatively satisfactory property sales in Mount East (North Point) in Hong Kong and Le Cove City (Shenyang) in Mainland China, with total sale and presale proceeds amounting to over HK\$1 billion.

During 2011, the Group continued to replenish its landbank in Mainland China and Hong Kong to further strengthen its solid foundation, with the existing development landbank attributable to the Group exceeding 5 million sq m of gross floor area (“GFA”).

In Mainland China, the Group completed an acquisition of an 80% stake in a sizeable residential and commercial development project in a central business district of Wuxi, Mainland China in the third quarter of 2011, with total site area amounting to 68,800 sq m. This site is located in Chong An District and is intended to be developed by phases into a residential, commercial, hotel and office complex, with GFA of 404,400 sq m.

In Hong Kong, we have replenished our landbank mainly through acquisition of a number of old buildings in the urban areas over the past years. During 2011, we acquired an approximately 83.9% ownership of a residential and commercial redevelopment site in Hung Hom, which consists of 14 aging buildings with each aged over 50 years, covering a total site area of approximately 4,000 sq m and GFA for redevelopment of 33,900 sq m. We are still in process of acquiring the remaining units and it may take 18 to 24 months to obtain 100% ownership. In addition, we successfully expanded the Group’s Belcher’s Street project by acquiring the adjacent sites in 2011, with GFA for redevelopment rising from approximately 5,640 sq m previously to 13,200 sq m. Furthermore, we have almost completed the acquisition of all residential units for redevelopment in the Pokfulam Road project, with GFA for redevelopment of approximately 9,300 sq m.

Property Sales

In Hong Kong, we have sold almost all residential units at Mount East, the Group’s wholly-owned luxury residential project in North Point, with total recognised sale proceeds of HK\$719 million and an operating profit of HK\$311 million in 2011.

In Mainland China, we have sold almost all residential units and a portion of retail shops and carparking spaces of the first phase of Le Cove City (Shenyang), the Group’s wholly-owned residential and commercial development project, with total recognised sale proceeds in 2011 amounting to HK\$496 million and an operating profit of HK\$65 million. In addition, we also started the presale of the second phase of Le Cove City (Shenyang) and the first phase of The Gardenia (Shenyang) in late 2011, with total presale proceeds of exceeding RMB181 million so far, and a substantial portion of the presale proceeds likely be recognised in 2012. The Lake, the

Group's joint-venture project in Foshan, contributed a profit of HK\$183 million to the Group in 2011.

Property Development

As of 31 December 2011, the Group's landbank for development amounted to exceeding 5 million sq m of attributable GFA and the Group's major property projects under planning and development are set out as follows:

Major Property Projects Under Planning and Development

Property Project	District/City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Clear Water Bay Road	Ngau Chi Wan, Kowloon	35 Clear Water Bay Road	Residential & commercial	19,335	196,400	100%	Land exchange under process General Building Plan has been approved Foundation work will be commenced in 2012	To be determined
Macpherson Stadium	Mongkok, Kowloon	10 Yim Po Fong Street	Stadium, youth centre, residential & commercial	2,400	24,800	Joint Venture with Urban Renewal Authority and Hong Kong Playground Association	Superstructural work in progress	2013
Gardenia	Kowloon	468–474 Sai Yeung Choi Street North	Residential	1,114	8,400	100%	Superstructural work in progress	2012
Belcher's Street	Kennedy Town, Hong Kong	150–162 Belcher's Street and 1–9 Kwan Yick Street	Residential & commercial	1,318	13,200	100%	Superstructural work in progress	2014
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	49–65A Pok Fu Lam Road	Residential	1,162	9,300	97.5%*	Seeking Building Department's approval on development proposal	To be determined
Hung Hom	Hung Hom, Kowloon	Wan Shun Street	Residential & commercial	4,038	33,900	83.9%	Acquisition of the remaining units in progress	To be determined

* The Group held 98.1% ownership as at 29 March 2012.

Major Property Projects Under Planning and Development (continued)

Property Project	District/ City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Le Cove City (Shenyang) (瀋陽·江灣城)	Hun Nan Xin District, Shenyang	6 Hun Nan Er Road	Residential & commercial	165,303	712,000	100%	Superstructural work for second phase in progress	By phases from 2011 onwards
The Lake (山語湖)	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
The Gardenia (翠堤灣)	Shenhe District, Shenyang	West of Daba Road	Residential & commercial	1,100,000	2,000,000	100%	Superstructural work for first phase in progress	By phases from 2012 onwards
Hedong	Hedong District, Tianjin	Lot No. Jin Dong Liu 2004—066, intersection of Shiyijing Road and Liuwei Road	Residential & commercial	137,940	930,000	49%	Master layout plan submitted for approval	By phases from 2013 onwards
Galaxy Heights (星際豪庭)	Shiqi District, Zhongshan	8 Xueyuan Road	Residential & commercial	18,334	129,000	70%	Superstructural work in progress	2012/2013
Le Cove City (Wuxi) (無錫·江灣城)	Chong An District, Wuxi	Tongyun Road and Gongyun Road	Residential & commercial	68,833	404,400 [#]	80%	Superstructural work for first phase in progress	By phases from 2013 onwards
Macau								
Pearl Horizon	Novos Aterros da Areia Preta	Lote P, The Orient Pearl District	Residential & commercial	68,000	699,700	58.8%	Building plan has been approved	By phases from 2015/2016 onwards
Lotes T + T1	Novos Aterros da Areia Preta	Lotes T + T1, The Orient Pearl District	Residential & commercial	17,900	195,600	58.8%	Building plan has been approved	2015/2016

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

Property Investment

During the period under review, the Group disposed of a number of retail units at New Mandarin Plaza in Hong Kong and Va Long in Macau, with a total recognised gain of HK\$131 million.

Despite disposal of the above non-core investment properties, the Group's gross rental income from its property investment portfolio for 2011 rose to HK\$293 million, an increase of 7.5% over 2010. More importantly, total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK\$240 million in 2011, or a growth rate of 10.1%, with almost all retail spaces and offices being let as of 31 December 2011.

The retail market in Hong Kong remained robust in 2011, with total retail sales rising 24.8% following a growth rate of 18.3% in 2010, supported largely by the rise in retail spending of Mainland China tourists. And the Group's leasing business has benefited from strong demand for retail spaces over the past couple of years.

On 18 January 2012, the Group entered into a Provisional Agreement for Sale and Purchase to dispose a number of retail units at Sino Centre, one of the Group's non-core investment properties in Hong Kong, at a total consideration of HK\$118 million. It is expected that the gains from these sales will be recognised in the first half of 2012.

Oil Business

For the year ended 31 December 2011, total revenue generated from the oil segment amounted to HK\$116 million. The segment recorded an operating loss of HK\$41 million which was mainly attributable to a temporary suspension of oil production in the first three months of 2011, pending approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan. We were able to obtain a temporary permit in April 2011 and we are currently seeking a permanent solution to tackle the gas flaring requirements. However, while we resumed oil production in April 2011, the production levels of various wells have only gradually improved in the third quarter of the year. The temporary disruption in production significantly affected the Group's earnings from this segment in 2011.

Nevertheless, during 2011, the Group's drilling program has produced some positive results amid bad weather conditions. Two new wells were put into production at the end of 2011 and the overall production rate has reached over 1,500 barrels per day by the end of 2011. The Group's professional team in Kazakhstan will continue to explore the potential for other areas within the Group's concession block aiming to further increase oil production levels and reserves. We expect that overall production level will continue to rise in 2012, with additional wells being planned to drill from April 2012.

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

PROSPECTS

In the US, while the economic recovery seems to continue in 2012, the pace has been modest so far. In the meanwhile, the stubbornly high unemployment rate and the persistently weak housing sector will likely remain a drag on economic growth. In Europe, while the European debt crisis has

recently appeared to be abating, the latest incoming data suggest that those European economies pledged to pursue fiscal austerity programs to address their debt problems will likely record slow or negative growth in general. In addition, the two largest emerging markets, China and India, have recently signaled growth slowdown in their respective economies. Therefore, the outlook for the global economy in 2012 appears to be increasingly uncertain.

We believe the existing various cooling and restrictive measures imposed on the Mainland China residential market will stay throughout 2012, with anticipation of only minor policy adjustments. Any significant relaxation of current restrictive policies is not expected unless overall housing transaction volumes and prices fall sharply, which will likely threaten the government's projected economic growth during 2012. Moreover, with inventory building rapidly over the past months, we expect the transaction prices in the residential market to remain suppressed during 2012. Nevertheless, the transaction volumes in the residential market have seemed to pick up somewhat in some of the cities in the recent months, and the home-buyers have appeared to react favorably to those property projects which have adopted price reduction strategies, reflecting relatively strong potential for housing demand.

In Hong Kong and Macau, the property transaction volumes and prices have been affected by various property measures introduced by respective governments since early 2011. However, there have recently been some signs of a pickup in transaction volumes, as well as prices, in both primary and secondary markets, with the prevailing and anticipation of low interest rate environment in the next couple of years.

Overall, we still see an uncertain market environment in the Greater China region in 2012, with possible introduction of new measures in the property markets. However, we are cautiously optimistic about the outlook for three economies in the Greater China region and therefore their housing markets over the medium term.

In Mainland China, the Group's development projects, including one in Foshan, two in Shenyang, one in Zhongshan and one in Wuxi, are currently under construction and they will be all completed in phases. We have started the presale or sale of units in the above development projects.

In Hong Kong, the Group has accelerated the pace of its property development and its four development projects are in the pipeline for presale in the next 12 months, namely the projects in Sai Yeung Choi Street North (Gardenia), the Macpherson Stadium, Belcher's Street and Pok Fu Lam Road.

In Macau, the Group's two mega luxury residential and commercial development projects, namely the Lote P project and Lotes T+T1 project, which Polytec Asset, the Group's 73.4%-owned subsidiary, has an 80% interest, are at the final stage of clearing all necessary formalities before the commencement of construction. These two sizeable projects may start to provide earnings for the Group from 2015/2016 onwards.

For 2012, the Group's core earnings will likely be generated from its two 100%-owned development projects in Shenyang (Le Cove City and The Gardenia), a 70%-owned project in Zhongshan (Galaxy Heights), a 50%-owned project in Foshan (The Lake), and the wholly-owned project in Sai Yeung Choi Street North, Hong Kong (Gardenia).

Over the past few years, the Group has built a sizeable and quality development landbank across the Greater China region, Hong Kong, Mainland China and Macau, at a relatively competitive cost, with the GFA attributable to the Group exceeding 5 million sq m. We will strive to expedite the development of our landbank, with the aim of achieving earnings growth in the coming years.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2011 together with comparative figures of 2010 are as follows:

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 HK\$'000	2010 HK\$'000
Turnover	3	1,755,293	1,268,722
Cost of sales		(896,555)	(765,500)
Other revenue		19,729	31,791
Other net income	4	287,792	189,494
Depreciation and amortisation		(12,831)	(11,000)
Staff costs		(152,568)	(116,878)
Selling and marketing expenses		(137,896)	(40,079)
Other operating expenses		(94,520)	(60,079)
Impairment loss on properties written back		–	154,770
Fair value changes on investment properties		<u>730,178</u>	<u>1,421,148</u>
Profit from operations		1,498,622	2,072,389
Finance costs	5	(62,753)	(20,207)
Share of profits of associated companies		1,950	2,596
Share of profits of jointly controlled entities		<u>321,765</u>	<u>218,360</u>
Profit before taxation	6	1,759,584	2,273,138
Income tax	7	<u>(159,219)</u>	<u>(75,290)</u>
Profit for the year		<u>1,600,365</u>	<u>2,197,848</u>
Attributable to :			
Shareholders of the Company		1,526,385	2,127,883
Non-controlling interests		<u>73,980</u>	<u>69,965</u>
Profit for the year		<u>1,600,365</u>	<u>2,197,848</u>
Earnings per share – Basic/Diluted	8	<u>HK\$1.33</u>	<u>HK\$1.85</u>

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	2011 <i>HK'000</i>	2010 <i>HK'000</i>
Profit for the year	<u>1,600,365</u>	<u>2,197,848</u>
Other comprehensive income for the year		
Exchange differences on translation of accounts of overseas subsidiaries	152,887	70,408
Realisation of exchange differences upon disposal of interest in a subsidiary	–	(1,994)
Changes in fair value of available-for-sale investments	(1,084)	2,169
Changes in fair value of interests in property development	17,577	56,524
Share of other comprehensive income of jointly controlled entities and associated companies	132,534	76,020
Transfer to income statement upon disposal of a subsidiary	<u>(481)</u>	<u>–</u>
	<u>301,433</u>	<u>203,127</u>
Total comprehensive income for the year	<u>1,901,798</u>	<u>2,400,975</u>
Attributable to :		
Shareholders of the Company	1,793,444	2,314,767
Non-controlling interests	<u>108,354</u>	<u>86,208</u>
Total comprehensive income for the year	<u>1,901,798</u>	<u>2,400,975</u>

Consolidated Balance Sheet

	Note	As at 31 December 2011		As at 31 December 2010	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Investment properties			8,808,370		7,411,650
– Leasehold land held for own use			228,964		235,568
– Other property, plant and equipment			<u>1,291,609</u>		<u>1,106,773</u>
			10,328,943		8,753,991
Oil exploitation assets			120,785		123,144
Interests in property development			10,190,981		10,173,404
Interest in jointly controlled entities			1,907,547		1,541,645
Interest in associated companies			2,124,195		1,675,361
Financial investments			19,555		29,346
Loans and advances			3,088		3,717
Other deposit			–		2,527
Deferred tax assets			<u>10,314</u>		<u>7,464</u>
			24,705,408		22,310,599
Current assets					
Inventories			11,736,445		7,487,859
Trade and other receivables	10		593,515		185,212
Loans and advances			22,252		19,043
Amounts due from					
jointly controlled entities			131,662		154,278
Financial investments			80,255		104,594
Time deposits (pledged)			15,000		15,000
Cash and cash equivalents			<u>764,144</u>		<u>719,684</u>
			13,343,273		8,685,670

		As at 31 December 2011		As at 31 December 2010	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	11	1,609,749		1,273,187	
Amounts due to					
non-controlling interests		200,000		–	
Amount due to					
a jointly controlled entity		581,200		554,448	
Bank loans		1,415,000		3,855,500	
Current taxation		257,856		298,465	
		<u>4,063,805</u>		<u>5,981,600</u>	
Net current assets			<u>9,279,468</u>		<u>2,704,070</u>
Total assets less current liabilities			33,984,876		25,014,669
Non-current liabilities					
Loan from ultimate holding company		5,097,532		896,569	
Amount payable to					
ultimate holding company		680,579		627,901	
Bank loans		4,531,779		1,660,447	
Other payables		46,637		46,872	
Deferred tax liabilities		812,814		303,170	
			<u>11,169,341</u>		<u>3,534,959</u>
NET ASSETS			<u>22,815,535</u>		<u>21,479,710</u>
Capital and reserves					
Share capital		115,068		115,068	
Reserves		19,656,838		18,473,255	
Total equity attributable to the shareholders of the Company			19,771,906		18,588,323
Non-controlling interests			<u>3,043,629</u>		<u>2,891,387</u>
TOTAL EQUITY			<u>22,815,535</u>		<u>21,479,710</u>

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 a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s accounts:

- HKAS 24 (revised 2009), “Related party disclosures”
- Improvements to HKFRSs (2010)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, “Income taxes”, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, “Investment property”. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has already early adopted the amendments for the year ended 31 December 2010.

The impacts of the developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group’s related party disclosures in the current and previous periods.
- Improvements to HKFRSs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in HKFRS 7, “Financial instruments: Disclosures”. The disclosures about the Group’s financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the accounts in the current and previous periods.

3 Segment reporting

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments. Finance and investments segment presented in previous years has been grouped under other business segment for the year. Certain comparative figures have been reclassified to conform to current year's presentation.

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

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

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

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

(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.

	2011						
	Property development				Property investment	Oil	Others
	Consolidated	Hong Kong	Mainland	Macau			
HK\$'000	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	<u>1,755,293</u>	<u>721,229</u>	<u>467,883</u>	<u>48,102</u>	<u>293,289</u>	<u>115,513</u>	<u>109,277</u>
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	<u>(62,753)</u>	-	-	-	-	-	-
Profit before taxation	<u>1,759,584</u>	-	-	-	-	-	-
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
	2010						
	Property development				Property investment	Oil	Others
	Consolidated	Hong Kong	Mainland	Macau			
HK\$'000	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	<u>1,268,722</u>	<u>2,357</u>	<u>-</u>	<u>819,258</u>	<u>272,741</u>	<u>80,444</u>	<u>93,922</u>
Reportable segment profit	783,366	159,048	153,630	111,328	276,043	9,749	73,568
Other net income	141,337	-	-	-	141,337	-	-
Fair value changes on investment properties	1,421,148	-	-	-	1,421,148	-	-
Share of fair value changes on investment properties of a jointly controlled entity	22,000	-	-	-	22,000	-	-
Head office and corporate expenses	(74,506)	-	-	-	-	-	-
Finance costs	<u>(20,207)</u>	-	-	-	-	-	-
Profit before taxation	<u>2,273,138</u>	-	-	-	-	-	-
Share of profits of associated companies	2,596	-	-	-	-	-	2,596
Share of profits of jointly controlled entities	218,360	-	172,720	-	45,640	-	-
Interest income	22,373	-	-	-	-	-	22,373
Depreciation and amortisation	(28,608)	-	-	-	-	(17,753)	(10,855)
Impairment loss on properties written back	154,770	154,770	-	-	-	-	-
Gain from bargain purchase	23,579	-	-	-	-	23,579	-

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

	2011						
	Property development				Property investment	Oil	Others
	Consolidated	Hong Kong	Mainland	Macau			
HK\$'000	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Reportable segment assets	37,245,110	5,949,174	9,676,050	10,280,052	9,506,796	1,414,643	418,395
Deferred tax assets	10,314						
Time deposit (pledged)	15,000						
Cash and cash equivalents	764,144						
Head office and corporate assets	14,113						
Consolidated total assets	<u>38,048,681</u>						
Interest in associated companies	2,124,195	-	2,112,085	-	-	-	12,110
Interest in and amounts due from jointly controlled entities	2,039,209	-	1,350,459	-	688,750	-	-
2010							
	Property development				Property investment	Oil	Others
	Consolidated	Hong Kong	Mainland	Macau			
HK\$'000	HK\$'000	China	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	30,234,331	4,255,834	6,026,766	10,285,205	8,002,462	1,220,557	443,507
Deferred tax assets	7,464						
Time deposit (pledged)	15,000						
Cash and cash equivalents	719,684						
Head office and corporate assets	19,790						
Consolidated total assets	<u>30,996,269</u>						
Interest in associated companies	1,675,361	-	1,667,105	-	-	-	8,256
Interest in and amounts due from jointly controlled entities	1,695,923	-	1,111,899	-	584,024	-	-

(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	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	1,093,128	344,536	8,037,216	7,634,699
Mainland China	483,484	14,758	4,501,706	2,776,310
Macau	49,394	821,855	578,516	490,040
Kazakhstan	115,513	80,494	1,364,032	1,195,619
Others	13,774	7,079	-	-
	<u>1,755,293</u>	<u>1,268,722</u>	<u>14,481,470</u>	<u>12,096,668</u>

In addition to the above non-current assets, the Group has interests in property development of HK\$10,190,981,000 (2010: HK\$10,173,404,000) in Macau.

4 Other net income

Other net income represents a net gain on disposal of investment properties of HK\$130,607,000 (2010: HK\$141,337,000), gain on disposal of subsidiaries of HK\$157,596,000 (2010: HK\$Nil), a gain from bargain purchase of HK\$23,928,000 (2010: HK\$23,579,000) in relation to the acquisition of subsidiaries and fair value changes on held for trading listed investments of loss of HK\$24,339,000 (2010: gain of HK\$24,578,000).

5 Finance costs

	2011 HK\$'000	2010 HK\$'000
Interest on bank loans and overdrafts	91,337	65,040
Interest on loan from/amount payable to ultimate holding company	42,075	10,572
Less : Amount capitalised	<u>(66,189)</u>	<u>(52,642)</u>
	67,223	22,970
Less: Interest expenses included as other operating expenses	<u>(4,470)</u>	<u>(2,763)</u>
	<u>62,753</u>	<u>20,207</u>

6 Profit before taxation

Profit before taxation is arrived at after charging :

	2011 HK\$'000	2010 HK\$'000
Amortisation of oil exploitation assets (<i>Remark</i>)	2,359	5,916
Depreciation and amortisation of fixed assets (<i>Remark</i>)	33,721	22,692
Staff costs (<i>Remark</i>)	<u>161,578</u>	<u>123,611</u>

Remark :

Cost of sales includes HK\$32,439,000 (2010: HK\$24,341,000) 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

	2011 HK\$'000	2010 HK\$'000
Current tax		
Provision for profits tax		
– Hong Kong	76,729	33,153
– Outside Hong Kong	<u>30,129</u>	<u>53,040</u>
	106,858	86,193
Land appreciation tax (“LAT”)	3,425	–
Deferred tax	<u>48,936</u>	<u>(10,903)</u>
	<u>159,219</u>	<u>75,290</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2010 : 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 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\$1,526,385,000 (2010: HK\$2,127,883,000) and weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2010: 1,150,681,275).

(b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2011 and 2010.

9 Dividends

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.21 (2010: HK\$0.20) per share	241,643	230,136
Final dividend proposed after the balance sheet date of HK\$0.33 (2010 : HK\$0.32) per share	<u>379,725</u>	<u>368,218</u>
	<u>621,368</u>	<u>598,354</u>

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 :

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current	<u>298,078</u>	<u>53,538</u>
Less than 3 months past due	11,430	5,354
3 months to 6 months past due	756	435
More than 6 months past due	<u>7,463</u>	<u>10,065</u>
Amounts past due	<u>19,649</u>	<u>15,854</u>
Trade receivables	317,727	69,392
Utility and other deposits	41,743	7,906
Other receivables and prepayments	<u>234,045</u>	<u>107,914</u>
	<u>593,515</u>	<u>185,212</u>

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 :

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Not yet due or on demand	715,615	132,551
Within 3 months	37,903	42,937
3 months to 6 months	130	506
More than 6 months	<u>34,057</u>	<u>32,768</u>
Trade payables	787,705	208,762
Rental and other deposits	72,267	64,798
Other payables and accrued expenses	352,218	535,177
Deposits received on sale of properties	<u>397,559</u>	<u>464,450</u>
	<u><u>1,609,749</u></u>	<u><u>1,273,187</u></u>

FINANCIAL REVIEW

Financial resources and bank borrowings

As at 31 December 2011, the Group's total bank borrowings were HK\$5,947 million, of which HK\$1,415 million was repayable within one year and HK\$4,532 million was repayable after one year. The net borrowings position of the Group as at 31 December 2011 amounted to HK\$5,183 million after taking into account cash and cash equivalents of HK\$764 million, an increase of HK\$387 million as compared with HK\$4,796 million as at 31 December 2010. The loan from/amount payable to the ultimate holding company amounted to HK\$5,778 million which showed an increase of HK\$4,254 million from HK\$1,524 million as at year end 2010.

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) increased to 55.4% as at 31 December 2011 (2010: 34.0%).

During 2011, the Group realised substantial cash inflow from sales and presale proceeds from Mount East in Hong Kong, Le Cove City in Hun Nan Xin District, Shenyang and Pacifica Garden in Macau for approximately HK\$348 million, HK\$544 million and HK\$46 million respectively. The Group also disposed certain non-core investment properties in Hong Kong and Macau and generated total cash of approximately HK\$312 million while disposal of the remaining duplex and carparks at 31 Robinson Road contributed a further of HK\$93 million during the year.

The Group has paid a total of HK\$1,708 million for the Group's development projects in Hong Kong and Mainland China. Furthermore, the Group acquired certain properties for proposed redevelopment projects in Hong Kong with cash outflow of HK\$1,528 million.

During the year, the Group has acquired 80% equity interests in the Wuxi development project from the ultimate holding company at a consideration of approximately HK\$1,320 million and additional of HK\$344 million has been paid for the land acquisition. An additional investment of approximately HK\$204 million was made in the Tianjin project.

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 on Renminbi ("RMB"). By using external borrowings in RMB together with revenue generated from the development projects in Mainland China, this can serve as a natural hedge against the exchange rate risk of RMB.

Due to the Group's oil business in Kazakhstan through our listed subsidiary Polytec Asset, the Group has been exposed to the exchange fluctuations in the Kazakhstan Tenge ("KZT"), the local currency of Kazakhstan. While the majority of the operating expenses, as well as capital expenditure, of the Group's oil business is denominated in the KZT, over 80% of its revenue generated from this segment is denominated in the USD. However, this business represents a relatively small portion of the Group's overall business and therefore the fluctuation in the KZT will not substantially affect the Group's financial position.

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

Capital commitments

As at 31 December 2011, the Group had commitments in connection with the Group's fixed assets amounted to HK\$169 million.

Pledge of assets

As at balance sheet date, Group properties with a value of HK\$10,339 million and time 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 jointly controlled entity in Mainland China. One guarantee is provided on a joint and several basis in the amount of RMB80 million. The joint venture partner and the Group had signed a mutual indemnification agreement by which each will be indemnified by the other on a 50:50 basis for any loss arising from the guarantee. The related banking facility was fully utilised the amount of RMB80 million as at 31 December 2011. The other remaining guarantees amounted to RMB475 million, representing a 50% proportional guarantee in respect of RMB950 million term loan facilities. The facilities were utilised to the extent of RMB690 million as at 31 December 2011.

HUMAN RESOURCES

As of 31 December 2011, the Group had a total of 734 employees (2010: 605 employees), of which 404 were Hong Kong staffs, 141 were PRC staffs and 189 were staffs in other regions, with the increase in headcount mainly due to the matching of business growth. During the year, total staff costs increased to HK\$162 million (2010: HK\$124 million) due to salary revision in July 2011 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.

We believe that the quality of the Group's 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 the Group's development in the ever-changing economy.

Besides, the Group has established a recreation club and held annual dinner, Christmas party, Group Family Fun Day 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 2011 including critical accounting policies and practices adopted by the Group.

Compliance with the Code on Corporate Governance Practices

The Company has complied throughout the year with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "Listing Rules"), except Code Provision A.2.1 (which recommends the roles of the Chairman and chief executive officer should be separate) as explained below.

Mr Or Wai Sheun has performed the combined role as the Chairman and the chief executive officer 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 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 value, are made by the Board and applicable Board committees.

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 2011.

Annual General Meeting

The 2012 Annual General Meeting of the Company will be held on Thursday, 28 June 2012. 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, 9 July 2012 to Tuesday, 10 July 2012, 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, 6 July 2012.

Publication of Annual Report

The 2011 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 27 April 2012.

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

Hong Kong, 29 March 2012

As at the date of this announcement, the Directors of the Company are Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan as Executive Directors; Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung 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.