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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 2013

HIGHLIGHTS

- The Group's net profit attributable to shareholders of the Company for 2013 amounted to HK\$1,294 million, a decrease of 31% over 2012.
- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2013 amounted to HK\$388 million, a decline of 60% over 2012. The underlying net earnings per share were HK\$0.34 for 2013 compared to HK\$0.84 in 2012.
- Full year dividend per share for 2013 amounts to HK\$0.57, with a final dividend per share of HK\$0.36.
- In 2013, the Group achieved substantial presales exceeding HK\$13 billion from its various development projects in the Greater China region, with a substantial portion from two development projects in Macau.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2013, net profit attributable to shareholders of the Company amounted to HK\$1,294 million compared to HK\$1,886 million in 2012, a decrease of 31%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2013 amounted to HK\$388 million compared to HK\$968 million in 2012, a decline of 60%. The underlying net earnings per share for 2013 were HK\$0.34 compared to HK\$0.84 in 2012.

The Board of Directors has recommended the payment of a final dividend of HK\$0.36 per share (2012: HK\$0.36) for the year ended 31 December 2013. Together with the 2013 interim dividend of HK\$0.21 per share (2012: HK\$0.21), the full year dividend for 2013 amounts to HK\$0.57 per share (2012: HK\$0.57).

The final dividend will be payable on Thursday, 3 July 2014 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 June 2014, subject to the approval of shareholders at the 2014 Annual General Meeting.

BUSINESS REVIEW

In 2013, overall sentiment and transaction volumes in both property markets in Hong Kong and Macau were further adversely affected by the Government's new property ordinances or laws. In Hong Kong, with the imposition of more restrictive measures, including additional stamp duties for property transactions in late February 2013 together with the new ordinance on the first-hand sales of residential properties becoming effective in late April 2013, overall transaction volumes in the primary and secondary residential markets tumbled. In Macau, with the new laws on property sale activities becoming effective in June 2013, the overall transaction volumes in the residential market plummeted during the second half of the year, with an average decrease of approximately 30% for the full year of 2013 based on the official statistics. Nevertheless, the Group achieved substantial presales well exceeding HK\$10 billion from its two development projects in Macau before the new laws became effective. In Mainland China, overall sentiment in the housing market was favourable, with both residential transaction volumes and prices rising in some major cities during 2013.

Development Property Sales

In Hong Kong, the Group launched the presale of Upper West, its wholly-owned development project in West Kowloon in early February 2013, with a majority of residential units having been sold. Together with presold units at Cadogan, its 100%-owned project in Kennedy Town, total presales for these two projects exceeded HK\$1 billion for 2013.

In Mainland China, during 2013, the Group launched the presale of the residential units of the second phase of The Gardenia (Shenyang), its 100%-owned residential and commercial project and the presale of the residential units at Jun Tai Garden, its 40%-owned project in Dongguan, and both of the projects have so far been well received by the market. Total presales/sales for various projects, including the joint venture project in Foshan, exceeded HK\$2.3 billion for the year.

In Macau, the combined presales of Pearl Horizon and Lotes T + T1, which are the Group's two luxury residential and commercial development projects in the Orient Pearl District held through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), exceeded HK\$10 billion for 2013.

Property Development

In August 2013, the Group acquired a 100% interest in a redevelopment site with an estimated gross floor area ("GFA") of approximately 6,000 sq m located in Aberdeen, Hong Kong and a 60% interest in a commercial and residential development project with GFA of approximately 519,900 sq m in Huizhou, Mainland China from its ultimate holding company.

During 2013, the Group successfully completed the acquisition of a 100% ownership of two redevelopment sites in Hung Hom and Pok Fu Lam Road, Hong Kong, with GFA for redevelopment of approximately 33,900 sq m and approximately 11,100 sq m respectively.

As of 31 December 2013, the Group's landbank for development exceeded 5 million sq m of attributable GFA. The Group's major property projects under planning and development are set out as follows:

Major Property Projects under Planning and Development

Property Project	District/City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Cadogan	Kennedy Town, Hong Kong	37A Cadogan Street	Residential & commercial	1,318	13,200	100%	Fitting-out work in progress	2014
Upper West	Tai Kok Tsui, Kowloon	18 Fuk Chak Street	Residential & commercial	781	6,600	100%	Superstructural work in progress	2015/16
MacPherson Place	Mongkok, Kowloon	38 Nelson Street	Stadium, youth centre, residential & commercial	2,400	24,800	Joint venture with Urban Renewal Authority and Hong Kong Playground Association	Obtained Certificate of Compliance in January 2014	Completed
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	45-65A Pok Fu Lam Road	Residential & commercial	1,388	11,100	100%	Demolition work completed	2018
Hung Hom	Hung Hom, Kowloon	Wan On Street	Residential & commercial	4,038	33,900	100%	Acquisition of all the remaining units achieved in December 2013	2017/18
Clear Water Bay Road	Ngau Chi Wan, Kowloon	35 Clear Water Bay Road	Residential & commercial	19,335	196,400	100%	Part of foundation work completed	To be determined
Aberdeen	Aberdeen, Hong Kong	1-11 Tang Fung Street	Residential	738	6,000	100%	Demolition work completed	2016/17

Major Property Projects under Planning and Development (continued)

Property Project	District/City	Location	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	6 Hun Nan Er Road	Residential & commercial	165,303	712,000	100%	Construction work for third phase in progress	By phases from 2011 onwards
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	West of Daba Road	Residential & commercial	1,100,000	2,000,000	100%	Construction work for second phase in progress	First phase 2014
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Tongyun Road and Gongyun Road	Residential & commercial	68,833	404,400 [#]	80%	Fitting-out work for first phase in progress	First phase 2014
Galaxy Heights (Zhongshan) 星際豪庭 (中山)	Shiqi District, Zhongshan	8 Xueyuan Road	Residential & commercial	18,334	129,000	70%	Fitting-out work in progress	2014
Jun Tai Garden (Dongguan) 君珺花園 (東莞)	Nancheng District, Dongguan	East of Hongwei Road, Xi Ping She Qu	Residential & commercial	32,521	79,700	40%	Fitting-out work in progress	2014
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Heshun Meijing Shuiku Sector, Lishui Town	Residential & commercial	4,020,743	1,600,000	50%	Construction work in progress	By phases from 2009 onwards
Jiang Wan Nan An Hua Yuan (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Dongjiang North Shore Wangjiang Lot	Residential & commercial	146,056	519,900	60%	Foundation work in progress	First phase 2015/16
Hedong (Tianjin) 河東(天津)	Hedong District, Tianjin	Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road	Residential & commercial	135,540	850,000*	49%	Construction work for first phase in progress	First phase 2015
Macau								
Pearl Horizon	Novos Aterros da Areia Preta	Lote P, The Orient Pearl District	Residential & commercial	68,000	699,700	58.8%	Foundation work commenced	2017/18
Lotes T + T1	Novos Aterros da Areia Preta	Lotes T + T1, The Orient Pearl District	Residential & commercial	17,900	195,600	58.8%	Foundation work commenced	2017/18

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

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

Property Investment

The Group disposed of all remaining retail units at New Mandarin Plaza in Tsim Sha Tsui, Hong Kong with total recognised gains amounting to HK\$232 million in 2013.

The Group's gross rental income from its property investment portfolio for 2013 rose to HK\$312 million, an increase of 3.8% over 2012. The relatively slower rate of growth in rental income for 2013 was mainly attributable to the disposal of the above non-core investment properties. Gross rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, increased 8.3% year-on-year to HK\$270 million in 2013 and both retail spaces and offices were nearly fully let as of 31 December 2013.

Oil Business

For the year ended 31 December 2013, the oil segment recorded a loss of HK\$347 million, including an impairment provision of HK\$296 million for the segment assets. The loss was mainly due to the temporary suspension of oil production throughout the whole year of 2013, pending the approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan from the Government. In view of the impact of an unexpectedly prolonged period of suspension on oil production resulted from the gas flaring issue, the Group has made an impairment provision for its oil segment assets based on a more prudent assessment of its oil business in Kazakhstan.

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

PROSPECTS

Major countries have implemented exceptionally easy monetary policies in the past few years and have been keeping interest rates at low levels for a long period of time. As a result, asset prices in the Greater China region had been accelerating. Over the last two years, the Group has made the most of this favorable market environment and achieved substantial presales from various projects in the region. However, going into 2014, the Fed has started to tighten its monetary policy and interest rates will likely rise gradually in Hong Kong and Macau. This change, together with the additional regulatory measures in the property markets already implemented in the Greater China region, will add more challenges to the Group's core property business in 2014.

The Group posted unsatisfactory results for 2013, with a profit warning being issued on 2 January 2014, due to the following two major reasons.

First, the management made an impairment provision of HK\$296 million for its oil assets in Kazakhstan, which business is through its 73.4%-owned listed subsidiary, Polytec Asset, based on a more prudent assessment noting it had taken longer period of time than expected to obtain the gas flaring permit and hence to resume its oil production. The management has been taking all possible steps to obtain the gas flaring permit for the oilfield aiming to resume oil production as soon as possible. However, the temporary disruption in oil production will further affect the results of this segment in 2014.

Second, while the Group obtained the occupation permit for MacPherson Residence, its joint venture development project with Urban Renewal Authority and Hong Kong Playground Association, in December 2012, further requirements from other relevant departments need to be satisfied before the Certificate of Compliance is granted. Consequently it affected the schedule of sales activities and hence profit recognition for this project in 2013. The Group finally fulfilled all necessary requirements at end-January 2014.

In Hong Kong, the Group will start the sales campaign for MacPherson Residence in the second quarter of this year. The construction work for Cadogan, its luxury residential and commercial development project in Kennedy Town, is expected to be completed in the middle of this year and it is expected to contribute to the Group's results for 2014. In addition, the Group is planning to launch the presale of another development project in Aberdeen in the second half of 2014.

In Mainland China, the presale of residential units of the third phase of Le Cove City (Shenyang) and the second phase of The Gardenia (Shenyang) has been encouraging and the Group plans to launch the presale of other phases of these two developments in the coming years. In Zhongshan, the construction work for Galaxy Heights has been almost completed and will hand over to purchasers shortly. In Dongguan, the presale of residential units of Jun Tai Garden was launched in the middle of 2013 and it has been well received by the market. The presale of the Group's new development project in Huizhou is expected to be launched in the fourth quarter of this year.

The Group is optimistic about the prospects for the Macau economy as a number of existing mega infrastructure investment projects and tourism-related development projects will continue to support the economy growing at a sustainable and relatively fast pace in the next few years. Over the past two years, the Group has achieved substantial presales of exceeding HK\$10 billion each year for its two mega residential and commercial development projects in Macau, namely Pearl Horizon and Lotes T + T1. However, the presales programmes for the two projects have been put on hold since the new laws on property sales activities became effective in June 2013. The Group is expected to re-launch the presale of the two projects after two years of construction when all relevant requirements for presale can possibly be fulfilled.

Looking ahead, the Group will focus on corporate development and enhance its competitiveness and therefore its capability of developing quality property projects, aiming to better cope with possible challenges in the markets. The management will closely monitor the development in the regional property markets and will continue to seek for good potential development opportunities but with cautious stance.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2013 together with the comparative figures of 2012 are as follows:

Consolidated Income Statement

for the year ended 31 December 2013

	<i>Note</i>	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Turnover	3	1,416,751	2,555,824
Cost of sales		(639,659)	(1,030,112)
Other revenue		21,169	31,048
Other net income	4	245,852	138,103
Depreciation and amortisation		(13,454)	(15,638)
Staff costs		(179,406)	(184,488)
Selling, marketing and distribution expenses		(139,320)	(381,977)
Impairment of oil production and exploitation assets	5	(296,400)	-
Other operating expenses		(95,025)	(90,730)
Fair value changes on investment properties		744,579	883,550
Profit from operations		1,065,087	1,905,580
Finance costs	6	(102,049)	(100,312)
Share of (losses)/profits of associated companies		(1,559)	2,089
Share of profits of joint ventures		398,892	340,214
Profit before taxation	7	1,360,371	2,147,571
Income tax	8	(59,571)	(172,182)
Profit for the year		1,300,800	1,975,389
Attributable to :			
Shareholders of the Company		1,293,672	1,886,254
Non-controlling interests		7,128	89,135
Profit for the year		1,300,800	1,975,389
Earnings per share - Basic/Diluted	9	HK\$1.12	HK\$1.64

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2013

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Profit for the year	<u>1,300,800</u>	<u>1,975,389</u>
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of accounts of of overseas subsidiaries	124,073	(1,156)
Changes in fair value of available-for-sale investments	37	(5,282)
Changes in fair value of interests in property development	439,312	7,277
Share of other comprehensive income of joint ventures and associated companies	112,801	374
Impairment loss on available-for-sale investments transferred to the consolidated income statement	<u>4,160</u>	<u>-</u>
	<u>680,383</u>	<u>1,213</u>
Total comprehensive income for the year	<u><u>1,981,183</u></u>	<u><u>1,976,602</u></u>
Attributable to :		
Shareholders of the Company	1,851,865	1,904,194
Non-controlling interests	<u>129,318</u>	<u>72,408</u>
Total comprehensive income for the year	<u><u>1,981,183</u></u>	<u><u>1,976,602</u></u>

Consolidated Balance Sheet

		As at 31 December 2013		As at 31 December 2012	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Investment properties			10,268,917		9,626,134
– Leasehold land held for own use			216,489		222,360
– Other property, plant and equipment			<u>1,052,394</u>		<u>1,319,468</u>
	5		11,537,800		11,167,962
Oil exploitation assets	5		84,322		109,014
Interests in property development			11,917,819		10,198,258
Interest in joint ventures			2,686,880		2,247,554
Interest in associated companies			2,401,667		2,331,841
Financial investments			2,284		8,485
Loans and advances			32,741		32,069
Deferred tax assets			<u>100,579</u>		<u>53,233</u>
			28,764,092		26,148,416
Current assets					
Inventories			14,942,538		13,236,301
Trade and other receivables	11		629,309		1,093,506
Loans and advances			12,748		16,925
Amounts due from joint ventures			56,576		86,524
Financial investments			97,951		94,937
Pledged bank deposits			32,834		35,396
Cash and cash equivalents			<u>623,966</u>		<u>564,889</u>
			<u>16,395,922</u>		<u>15,128,478</u>

		As at 31 December 2013		As at 31 December 2012	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	12	3,034,768		2,601,946	
Amounts due to					
non-controlling interests		200,000		200,000	
Amount due to a joint venture		790,480		762,368	
Bank loans		1,334,314		1,603,863	
Current taxation		253,722		285,117	
		<u>5,613,284</u>		<u>5,453,294</u>	
Net current assets			<u>10,782,638</u>		<u>9,675,184</u>
Total assets less current liabilities			39,546,730		35,823,600
Non-current liabilities					
Loan from ultimate holding company		9,328,289		6,509,137	
Bank loans		3,861,567		4,265,660	
Other payables		41,416		48,732	
Deferred tax liabilities		881,590		859,073	
			<u>14,112,862</u>		<u>11,682,602</u>
NET ASSETS			<u>25,433,868</u>		<u>24,140,998</u>
Capital and reserves					
Share capital		115,068		115,068	
Reserves		22,135,641		20,939,664	
Total equity attributable to the shareholders of the Company			22,250,709		21,054,732
Non-controlling interests			<u>3,183,159</u>		<u>3,086,266</u>
TOTAL EQUITY			<u>25,433,868</u>		<u>24,140,998</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 new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 1, "Presentation of financial statements — Presentation of items of other comprehensive income"
- HKFRS 10, "Consolidated financial statements"
- HKFRS 11, "Joint arrangements".
- HKFRS 12, "Disclosure of interests in other entities"
- HKFRS 13, "Fair value measurement"

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

HKFRS 12, Disclosure of interests in other entities

HKFRS 12, brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Other developments have had no material impact on the Group's accounts.

3 Segment reporting

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

- Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties and interests in property development. 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 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.

	2013						
	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	1,416,751	26,000	734,120	125,561	311,733	62,623	156,714
Reportable segment profit	341,014	1,047	180,858	80,976	336,871	(347,209)	88,471
Other net income	240,658	5,218	-	-	235,440	-	-
Fair value changes on investment properties	744,579	-	-	-	744,579	-	-
Share of fair value changes on investment properties of a joint venture	223,520	-	-	-	223,520	-	-
Head office and corporate expenses	(87,351)	-	-	-	-	-	-
Finance costs	(102,049)	-	-	-	-	-	-
Profit before taxation	1,360,371						
Share of losses of associated companies	(1,559)	-	(8,048)	-	-	-	6,489
Share of profits of joint ventures	398,892	-	132,008	-	266,884	-	-
Interest income	45,712	-	-	-	-	-	45,712
Depreciation and amortisation	(38,481)	-	-	-	-	(24,142)	(14,339)
Impairment of oil production and exploitation assets	(296,400)	-	-	-	-	(296,400)	-
	2012						
	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
Turnover	2,555,824	1,199,493	287,333	2,940	300,388	641,255	124,415
Reportable segment profit	1,203,605	520,015	183,991	6,441	307,669	113,144	72,345
Other net income	123,421	-	-	21,805	101,616	-	-
Fair value changes on investment properties	883,550	-	-	-	883,550	-	-
Share of fair value changes on investment properties of a joint venture	120,120	-	-	-	120,120	-	-
Head office and corporate expenses	(82,813)	-	-	-	-	-	-
Finance costs	(100,312)	-	-	-	-	-	-
Profit before taxation	2,147,571						
Share of profits of associated companies	2,089	-	(2,495)	-	-	-	4,584
Share of profits of joint ventures	340,214	-	183,012	-	157,202	-	-
Interest income	20,153	-	-	-	-	-	20,153
Depreciation and amortisation	(182,267)	-	-	-	-	(167,800)	(14,467)

(a) Segment results and assets (continued)

	2013						
	Property development						
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000	Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
Reportable segment assets	44,389,965	7,877,617	12,845,302	10,792,824	11,309,742	1,116,039	448,441
Deferred tax assets	100,579						
Pledged bank deposits	32,834						
Cash and cash equivalents	623,966						
Head office and corporate assets	12,670						
Consolidated total assets	<u>45,160,014</u>						
Interest in associated companies	2,401,667	-	2,379,464	-	-	-	22,203
Interest in and amounts due from joint ventures	2,743,456	-	1,713,688	-	1,029,768	-	-
	2012						
	Property development						
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000	Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
Reportable segment assets	40,607,612	7,496,960	10,468,146	10,313,502	10,443,309	1,432,869	452,826
Deferred tax assets	53,233						
Pledged bank deposits	35,396						
Cash and cash equivalents	564,889						
Head office and corporate assets	15,764						
Consolidated total assets	<u>41,276,894</u>						
Interest in associated companies	2,331,841	-	2,315,147	-	-	-	16,694
Interest in and amounts due from joint ventures	2,334,078	-	1,525,602	-	808,476	-	-

(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 joint ventures, the location of operations.

	Revenue		Non-current assets	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong (place of domicile)	463,966	1,596,149	9,282,402	8,745,807
Mainland China	753,967	302,268	5,353,982	5,004,455
Macau	125,561	3,091	997,002	730,118
Kazakhstan	62,623	641,255	1,077,283	1,375,991
Others	10,634	13,061	–	–
	<u>1,416,751</u>	<u>2,555,824</u>	<u>16,710,669</u>	<u>15,856,371</u>

In addition to the above non-current assets, the Group has interests in property development of HK\$10,614,101,000 (2012: HK\$10,198,258,000) and HK\$1,303,718,000 (2012: HK\$Nil) in Macau and Mainland China respectively.

4 Other net income

Other net income represents a net gain on disposal of investment properties of HK\$235,440,000 (2012: HK\$101,616,000), impairment of properties written back of HK\$5,218,000 (2012: HK\$21,805,000), impairment of an associated company written back of HK\$2,180,000 (2012: HK\$Nil) and a fair value gain on held for trading listed investments of HK\$3,014,000 (2012: HK\$14,682,000).

5 Impairment of oil production and exploitation assets

The normal crude oil production of 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 has been temporarily suspended since 1 January 2013, as the gas flaring permit to flare associated gas for the South Alibek Oilfield expired on 31 December 2012. Caspi Neft TME has applied to the Kazakhstan Government for the gas flaring permit in October 2012. Up to the date of approval of these financial statements, it has obtained the approvals from the Ecology Committee and the Geology Committee of the Kazakhstan Government for the gas flaring permit. Further approvals from other local authorities are now required to obtain the gas flaring permit in order to resume normal crude oil production. Caspi Neft TME has been taking all necessary steps to obtain the permit. Caspi Neft TME 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 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 gas flaring permit will not be renewed. Normal crude oil production will be resumed as soon as practicable upon obtaining the permit.

Due to the above issue, the normal crude oil production of the Group has been suspended for an unexpected prolonged period. The Group has reassessed the operation and the risk exposures of its oil exploration and production business as a whole and estimated that at 31 December 2013, the carrying amount of the oil production and exploitation assets exceeded their estimated recoverable amount by HK\$296,400,000 (2012: HK\$Nil). Accordingly, impairment for oil production assets and oil exploitation assets amounting to HK\$273,200,000 (2012: HK\$Nil) and HK\$23,200,000 (2012: HK\$Nil) respectively were recognised.

6 Finance costs

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest on bank loans and overdrafts	99,133	113,299
Interest on loan from ultimate holding company	108,025	90,991
Less : Amount capitalised	<u>(102,500)</u>	<u>(99,004)</u>
	104,658	105,286
Less: Interest expenses included as other operating expenses	<u>(2,609)</u>	<u>(4,974)</u>
	<u>102,049</u>	<u>100,312</u>

7 Profit before taxation

Profit before taxation is arrived at after charging :

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Amortisation of oil exploitation assets (<i>Remark</i>)	2,589	11,771
Depreciation and amortisation of fixed assets (<i>Remark</i>)	35,892	170,496
Staff costs (<i>Remark</i>)	<u>204,994</u>	<u>203,105</u>

Remark :

Cost of sales includes HK\$28,416,000 (2012: HK\$177,852,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

8 Income tax

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	52,514	127,831
– Outside Hong Kong	<u>54,215</u>	<u>9,445</u>
	106,729	137,276
Land appreciation tax ("LAT")	12,811	38,599
Deferred tax	<u>(59,969)</u>	<u>(3,693)</u>
	<u>59,571</u>	<u>172,182</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2012: 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 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 land value, being the proceeds of sales of properties less deductible expenditures including costs of land use rights, borrowings costs and all property development expenditures.

9 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\$1,293,672,000 (2012: HK\$1,886,254,000) and weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2012: 1,150,681,275).

(b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2013 and 2012.

10 Dividends

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.21 (2012: HK\$0.21) per share	241,643	241,643
Final dividend proposed after the balance sheet date of HK\$0.36(2012: HK\$0.36) per share	<u>414,245</u>	<u>414,245</u>
	<u>655,888</u>	<u>655,888</u>

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

11 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 :

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current and less than 3 months	344,628	816,576
3 months to 6 months	1,239	1,496
More than 6 months	<u>5,528</u>	<u>9,208</u>
Trade receivables	351,395	827,280
Utility and other deposits	70,792	57,271
Other receivables and prepayments	<u>207,122</u>	<u>208,955</u>
	<u>629,309</u>	<u>1,093,506</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.

12 Trade and other payables

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

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Not yet due or on demand	773,047	698,536
Within 3 months	40,066	133,986
3 months to 6 months	53	2,436
More than 6 months	<u>29,670</u>	<u>28,393</u>
Trade payables	842,836	863,351
Rental and other deposits	73,121	172,760
Other payables and accrued expenses	191,495	350,863
Deposits received on sale of properties	<u>1,927,316</u>	<u>1,214,972</u>
	<u>3,034,768</u>	<u>2,601,946</u>

FINANCIAL REVIEW

Financial resources and bank borrowings

As at 31 December 2013, the Group had total bank borrowings of HK\$5,196 million with HK\$1,334 million repayable within one year and HK\$3,862 million repayable beyond one year, represented a drop of HK\$674 million comparing with 2012 year end. The Group's net borrowings position, after taking into account cash and cash equivalents of HK\$624 million, was HK\$4,572 million as at 31 December 2013, a drop of HK\$733 million as compared with HK\$5,305 million as at 31 December 2012. Loan from ultimate holding company amounted to HK\$9,328 million as at 31 December 2013, which showed an increase of HK\$2,819 million comparing with 2012 year end.

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) was 62.5% as at 31 December 2013 as compared with 56.1% at year end 2012.

During the year, substantial cash inflow mainly from sales/presales from various development projects in Hong Kong and Mainland China generated approximately HK\$1,281 million and HK\$847 million cash inflow to the Group respectively. Also, further disposal of certain non-core investment properties in Hong Kong contributed a HK\$550 million cash inflow during the year.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$2,067 million of construction cost during the year. The Group has unified the title for certain redevelopment projects in Hong Kong with additional costs of HK\$649 million and hence further expanded the landbank of the Group.

In 2013, the Group has acquired two subsidiaries from the ultimate holding company at a total consideration of approximately HK\$1,649 million which in turns the Group has a 60% interest in a Huizhou development project in Mainland China and owns 100% interest of a redevelopment project located in Aberdeen, Hong Kong. These transactions further expanded the landbank and provided more investment opportunities for the Group.

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

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

In 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, due to the majority of operating expenses and capital expenditure are denominated in the KZT, while a significant portion of its revenue is denominated in USD. The Group is closely monitoring the fluctuation in the KZT and may use appropriate currency hedging to minimise the impact of the currency movement on its financial position when necessary.

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

Capital commitments

As at 31 December 2013, the Group had commitments in connection with the Group's fixed assets amounted to HK\$68 million.

Pledge of assets

As at the balance sheet date, properties having a value of HK\$11,261 million and bank deposits of HK\$33 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\$407 million, representing a 50% proportional guarantee in respect of HK\$814 million term loan facilities. The facilities were fully utilised as at 31 December 2013.

HUMAN RESOURCES

As of 31 December 2013, the Group had a total of 803 employees (2012: 796 employees), of which 453 were Hong Kong staff, 132 were PRC staff and 218 were staff in other regions, with the increase in headcount mainly due to matching business growth. During the year, total staff costs increased to HK\$205 million (2012: HK\$203 million) due to salary revision in July 2013 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

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

In addition, the Group established a recreation club and held an annual dinner and Christmas party for employees during the year to promote team spirit and loyalty and to promote communication 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 2013 including critical accounting policies and practices adopted by the Group.

Compliance with the Corporate Governance Code

The Company has complied throughout the year with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”), with the exception of code provisions A.2.1 and A.6.7 as explained below:

Code Provision A.2.1

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

Code Provision A.6.7

All Non-executive Directors and Independent Non-executive Directors attended the annual general meeting (the “AGM”) and extraordinary general meeting (the “EGM”) of the Company held on 26 June 2013 and 20 November 2013 respectively, other than (i) an Independent Non-executive Director who was unable to attend the AGM and the EGM as he was overseas at the time and (ii) two Non-executive Directors who were unable to attend the EGM as one was overseas at the time and the other abstained from voting.

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 year ended 31 December 2013.

2014 Annual General Meeting

The 2014 Annual General Meeting of the Company will be held on Wednesday, 11 June 2014. The Notice of 2014 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, 23 June 2014 to Tuesday, 24 June 2014, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms 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, 20 June 2014.

Publication of Annual Report

The 2013 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 30 April 2014.

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

Hong Kong, 26 March 2014

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; Mr Keith Alan Holman (Deputy Chairman), 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.