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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 2014

HIGHLIGHTS

- For the year ended 31 December 2014, the Group's net profit attributable to shareholders of the Company amounted to HK\$1,041 million compared to HK\$1,294 million in 2013, a decrease of 19.6%.
- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2014 rose to HK\$618 million from HK\$388 million in 2013, an increase of 59%. The underlying net earnings per share were HK\$0.54 for 2014 compared to HK\$0.34 in 2013.
- Full year dividend per share for 2014 amounts to HK\$0.57, with a final dividend per share of HK\$0.36.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2014, the Group's net profit attributable to shareholders of the Company amounted to HK\$1,041 million compared to HK\$1,294 million in 2013, a decrease of 19.6%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2014 rose to HK\$618 million from HK\$388 million in 2013, an increase of 59%. The underlying net earnings per share for 2014 were HK\$0.54 compared to HK\$0.34 in 2013.

The Board of Directors has recommended the payment of a final dividend of HK\$0.36 per share (2013: HK\$0.36) for the year ended 31 December 2014. Together with the 2014 interim dividend of HK\$0.21 per share (2013: HK\$0.21), the full year dividend for 2014 amounts to HK\$0.57 per share (2013: HK\$0.57).

The final dividend will be payable on Thursday, 18 June 2015 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 June 2015, subject to the approval of shareholders at the 2015 Annual General Meeting.

BUSINESS REVIEW

The overall sentiment has started to improve in the property market in Hong Kong since the second quarter of 2014, following sluggish sales activity generally in early 2014 due to various government-imposed measures intended to cool down the property sales activity, with both transaction volume and value in the primary residential market rising substantially in 2014.

In Mainland China, the overall market sentiment, except in the first-tier cities, has weakened considerably since the beginning of 2014 due to the oversupply issue and a slowing economy. Most property developers have been trying to substantially cut prices in order to reduce their rapidly built-up inventories. As a result, home prices have declined across the nation, with the average new home prices for 70 major cities having dropped year-on-year since September 2014 and this trend still persists. In the wake of slowing nationwide property sales, most of the local governments have already tried to ease or completely lift those home purchase restrictions previously imposed. The central bank has also tried to ease monetary policy by cutting interest rates and releasing more liquidity to the market. However, it appears that these easing policies have not as yet revived the weak housing market.

In Macau, the anti-corruption campaign in Mainland China, together with the government's implementation of a new transit visa restriction since 1 July 2014 and more importantly, its imposition of further restrictions on the RMB conversion made by tourists from Mainland China have adversely affected the performance of the gaming sector during majority of time over the past year and hence the economy. The economic slowdown has consequently prompted a correction in the property market, with the volume of residential transactions plummeting and the transacted prices falling around 20% from their peak in the middle of 2014.

For the year under review, a majority of the Group's operating profit was derived from income generated by the property investment portfolios in Hong Kong and Macau, as well as the recognised sales from Cadogan.

Development Property Sales

In Hong Kong, the Group launched the sale of MacPherson Residence, its joint venture development project with Urban Renewal Authority and Hong Kong Playground Association in Mongkok in late May 2014 and it has been well received by the market with total sales exceeding HK\$940 million as of 31 December 2014. In early August 2014, the Group obtained the Occupation Permit for Cadogan, its 100%-owned project in Kennedy Town, with total sales of approximately HK\$1,400 million being recognised for the year under review. The land cost for this development project is relatively low, which was achieved through years of our effort to acquire individual old flats in the area, and therefore it has generated a decent profit for the Group.

In Mainland China, gross presales/sales generated from the Group's various projects across the nation amounted to approximately RMB2.6 billion in 2014, with approximately RMB1.7 billion attributable to the Group. In the second half of 2014, the Group launched the presale of two new development projects in Tianjin and Huizhou, with both projects having been well received by the market.

In Macau, the presale for the Group's two luxury development projects in the Orient Pearl District held through Polytec Asset Holdings Limited ("Polytec Asset"), namely Pearl Horizon and Lotes T+T1, have been put on hold until the progress in construction fulfills relevant requirements for presale and obtain the presale permission in accordance with the new laws on property sale activity. Therefore, no presales for these two projects were recorded for the year under review.

Property Development

In December 2014, the Group successfully acquired a piece of land in Lei Yue Mun, Hong Kong via public tender, with site area of approximately 3,240 sq m and gross floor area (“GFA”) of approximately 29,200 sq m. The Group intends to develop this wholly-owned site into a high-end residential and commercial complex with a public carpark. This acquisition enhances the Group’s landbank in Hong Kong.

As of 31 December 2014, 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	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Remaining GFA* (sq m)	Group’s Interest	Status	Expected Date of Completion
Hong Kong								
Upper West	Tai Kok Tsui, Kowloon	Residential & retail	780	6,600	6,600	100%	Superstructural work in progress	2015/2016
Aberdeen	Aberdeen, Hong Kong	Residential	738	6,000	6,000	100%	Foundation work completed and preparing for commencement of superstructural work	2016/2017
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	11,100	100%	Preparing for commencement of foundation work	2019/2020
Hung Hom	Hung Hom, Kowloon	Residential & commercial	4,038	33,900	33,900	100%	Demolition work completed and preparing for commencement of foundation work	2018/2019
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
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	29,200	100%	Handover of land in January 2015	2018/2019

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
Mainland China								
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	547,900	100%	Construction work for the third phase in progress	Third phase 2015
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	2,000,000	100%	Construction work for the second phase in progress	Second phase IIA 2015 IIB 2016/2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400 [#]	404,400 [#]	80%	Fitting-out work for the first phase in progress; construction work for the second phase commenced	First phase 2015 Second phase 2017
Galaxy Heights (Zhongshan) 星際豪庭 (中山)	Shiqi District, Zhongshan	Residential & commercial	18,334	129,000	129,000	70%	Fitting-out work in progress	2015
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	1,165,300	50%	Construction work for the second phase of high rise residential towers in progress	Second phase of high rise residential towers 2015/2016
Jiang Wan Nan An Hua Yuan (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	519,900	60%	Superstructural work for the first phase in progress	First phase 2016
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	850,000*	49%	Construction work for the first phase in progress	First phase 2015
Macau								
Pearl Horizon	Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	697,600	58.8%	Foundation work for the whole project commenced in late 2014	2017/2018
Lotes T + T1	Novos Aterros da Areia Preta	Residential & commercial	17,900	195,600	195,600	58.8%	Piling work to be completed by end 2015	2017/2018

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

[#] 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

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2014 rose to HK\$337 million, an increase of 8.2% over 2013. Gross rental income generated from Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong rose 8.3% year-on-year to HK\$292 million in 2014; both retail spaces and offices were nearly fully let as of 31 December 2014.

Oil Business

For the year ended 31 December 2014, the segment recorded an operating loss of HK\$216 million compared to an operating loss of HK\$347 million in 2013.

The segment operating loss for the year under review was mainly due to two factors. First, in view of the adverse impact of the collapse in international oil prices on its future earnings, the Group made an impairment provision of HK\$212 million for the Kazakhstan oil assets in 2014. Second, while the Group's South Alibek Oilfield in Kazakhstan resumed normal oil production immediately after it obtained the gas flaring permits in late September 2014, the suspension of usual oil production in the first nine months significantly affected the earnings of the segment for 2014. The Group has endeavoured to seek a solution to tackle the gas flaring issue for its oilfield in Kazakhstan before the permits expire on 31 August 2015, with various viable options having recently been under consideration.

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

PROSPECTS

In 2014, the property market in Hong Kong benefitted substantially from the persistently historic-low interest rate environment and growing buying appetite since the second quarter of 2014, with both transaction volume and prices rising considerably in the primary residential market. Looking ahead, whether these favourable conditions in the housing market in Hong Kong will remain depending largely on two factors, that is, the timing and path of the interest rate hikes in the US and any further government's restrictive measures on the property market to dampen the buyers' appetite.

In Hong Kong, the Group will continue the sale of the remaining units at MacPherson Residence and Cadogan in the first half of 2015. In addition, it intends to launch the presale of two wholly-owned new residential development projects in Aberdeen and Hung Hom during the second half of 2015, with a combined GFA of approximately 40,000 sq m.

In Mainland China, the Group will continue the presale/sale of its various projects, both wholly-owned and jointly-owned, this year. Despite severe competition in the market, the Group will endeavour to improve its sales in 2015 aiming to perform better than that of 2014. Owing to its past experience with property development in Mainland China, the Group intends to focus on developments in the first-tier cities as this positioning will create more synergies by capitalising on its expertise with property development in Hong Kong and Macau and adding more value to its development projects in Mainland China.

In Macau, the Group expects that the correction in the residential market triggered by the slowing economy will persist until the economy stabilises and starts to pick up. Nevertheless, as the Group has presold over 3,000 residential units of its two major luxury residential development projects in the Orient Pearl District over the past few years with contracted presales exceeding HK\$20 billion, the short-term market fluctuation has not adversely affected its two projects under construction. The Group is accelerating construction work of its two projects, aiming for completion and handover to home buyers in 2017/2018.

The Group expects its investment property portfolios in Hong Kong and Macau, as well as its cold storage and ice manufacturing business operated by Polytec Asset, will continue to generate stable income in 2015.

The Group's oil business in Kazakhstan held through Polytec Assets is not expected to contribute any net income to its results in 2015 if international oil prices stay at the current low levels throughout the year.

Looking forward, the Group will continue to enhance its competitiveness in the property markets across the Greater China region to lay a solid foundation for long-term sustainable growth.

I would like to take this opportunity to express my gratitude to my fellow directors for their support and all staff for their dedication and hard work.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2014 together with the comparative figures of 2013 are as follows:

Consolidated Income Statement for the year ended 31 December 2014

	<i>Note</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Turnover	3	3,150,473	1,416,751
Cost of sales		(1,613,698)	(639,659)
Other revenue		44,281	21,169
Other net income	4	2,779	245,852
Depreciation and amortisation		(17,404)	(13,454)
Staff costs		(184,489)	(179,406)
Selling, marketing and distribution expenses		(257,699)	(139,320)
Impairment of oil production and exploitation assets	5	(212,000)	(296,400)
Other operating expenses		(87,963)	(95,025)
Fair value changes on investment properties		363,058	744,579
Profit from operations		1,187,338	1,065,087
Finance costs	6	(168,758)	(102,049)
Share of losses of associated companies		(19,865)	(1,559)
Share of profits of joint ventures		285,237	398,892
Profit before taxation	7	1,283,952	1,360,371
Income tax	8	(230,874)	(59,571)
Profit for the year		1,053,078	1,300,800
Attributable to:			
Shareholders of the Company		1,040,717	1,293,672
Non-controlling interests		12,361	7,128
Profit for the year		1,053,078	1,300,800
Earnings per share – Basic/Diluted	9	HK\$0.90	HK\$1.12

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2014

	2014 <i>HK'000</i>	2013 <i>HK'000</i>
Profit for the year	<u>1,053,078</u>	<u>1,300,800</u>
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of accounts of overseas subsidiaries	(12,532)	124,073
Changes in fair value of available-for-sale investments	–	37
Changes in fair value of interests in property development	309,601	439,312
Impairment of available-for-sale investments transferred to the consolidated income statement	–	4,160
Share of other comprehensive income of joint ventures and associated companies	<u>(12,349)</u>	<u>112,801</u>
	<u>284,720</u>	<u>680,383</u>
Total comprehensive income for the year	<u>1,337,798</u>	<u>1,981,183</u>
Attributable to:		
Shareholders of the Company	1,245,009	1,851,865
Non-controlling interests	<u>92,789</u>	<u>129,318</u>
Total comprehensive income for the year	<u>1,337,798</u>	<u>1,981,183</u>

Consolidated Balance Sheet

	<i>Note</i>	At 31 December 2014		At 31 December 2013	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets					
Fixed assets					
– Investment properties			10,646,498		10,268,917
– Leasehold land held for own use			209,884		216,489
– Other property, plant and equipment	5		837,103		1,052,394
			11,693,485		11,537,800
Oil exploitation assets	5		66,257		84,322
Interests in property development			12,227,420		11,917,819
Interest in joint ventures			2,953,007		2,686,880
Interest in associated companies			2,282,764		2,401,667
Financial investments			–		2,284
Loans and advances			54,221		32,741
Deferred tax assets			109,309		100,579
			29,386,463		28,764,092
Current assets					
Inventories			17,079,825		14,942,538
Trade and other receivables	11		744,482		629,309
Loans and advances			15,985		12,748
Amounts due from joint ventures			40,009		56,576
Financial investments			21,945		97,951
Pledged bank deposits			15,000		32,834
Cash and cash equivalents			1,157,340		623,966
			19,074,586		16,395,922

		At 31 December 2014		At 31 December 2013	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	12	5,375,265		3,034,768	
Amounts due to					
non-controlling interests		200,000		200,000	
Amount due to a joint venture		787,838		790,480	
Bank loans		1,343,400		1,334,314	
Current taxation		332,703		253,722	
		<u>8,039,206</u>		<u>5,613,284</u>	
Net current assets			<u>11,035,380</u>		<u>10,782,638</u>
Total assets less current liabilities			40,421,843		39,546,730
Non-current liabilities					
Loan from ultimate holding company		6,778,980		9,328,289	
Bank loans		6,574,346		3,861,567	
Other payables		38,679		41,416	
Deferred tax liabilities		950,651		881,590	
			<u>14,342,656</u>		<u>14,112,862</u>
NET ASSETS			<u>26,079,187</u>		<u>25,433,868</u>
Capital and reserves					
Share capital	13	8,417,472		115,068	
Share premium	13	–		8,302,404	
Reserves		14,421,101		13,833,237	
Total equity attributable to the shareholders of the Company			22,838,573		22,250,709
Non-controlling interests			<u>3,240,614</u>		<u>3,183,159</u>
TOTAL EQUITY			<u>26,079,187</u>		<u>25,433,868</u>

1 Basis of preparation

The 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”) and accounting principles generally accepted in Hong Kong. The accounts also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with the transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The 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.

2 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group’s accounts:

- Amendments to HKAS 36, “Recoverable amount disclosures for non-financial assets”

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. The disclosures required by HKAS 36 are generally more extensive than those previously required by the standard.

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 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 sale of properties and crude oil and interest income.

Reporting segment profit represents profit before taxation 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.

	2014						
	Property development						
	Consolidated HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000	Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
Turnover	<u>3,150,473</u>	<u>2,342,189</u>	<u>144,672</u>	<u>16,000</u>	<u>337,309</u>	<u>157,725</u>	<u>152,578</u>
Reportable segment profit	995,484	788,259	(29,010)	15,945	383,837	(215,634)	52,087
Fair value changes on investment properties	363,058	-	-	-	363,058	-	-
Share of fair value changes on investment properties of a joint venture	187,880	-	-	-	187,880	-	-
Head office and corporate expenses	(93,712)	-	-	-	-	-	-
Finance costs	<u>(168,758)</u>	-	-	-	-	-	-
Profit before taxation	<u>1,283,952</u>	-	-	-	-	-	-
Share of losses of associated companies	(19,865)	-	(24,268)	-	-	-	4,403
Share of profits of joint ventures	285,237	-	49,824	-	235,413	-	-
Interest income	25,049	-	-	-	-	-	25,049
Depreciation and amortisation	(59,735)	-	-	-	-	(42,679)	(17,056)
Impairment of oil production and exploitation assets	(212,000)	-	-	-	-	(212,000)	-
	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
Turnover	<u>1,416,751</u>	<u>26,000</u>	<u>734,120</u>	<u>125,561</u>	<u>311,733</u>	<u>62,623</u>	<u>156,714</u>
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	<u>(102,049)</u>	-	-	-	-	-	-
Profit before taxation	<u>1,360,371</u>	-	-	-	-	-	-
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)	-

(a) Segment results and assets (continued)

	2014						
	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	47,153,636	9,115,172	13,867,599	10,985,703	11,882,063	910,064	393,035
Deferred tax assets	109,309						
Pledged bank deposits	15,000						
Cash and cash equivalents	1,157,340						
Head office and corporate assets	<u>25,764</u>						
Consolidated total assets	<u>48,461,049</u>						
Interest in associated companies	2,282,764	-	2,256,158	-	-	-	26,606
Interest in and amounts due from joint ventures	2,993,016	-	1,775,101	-	1,217,915	-	-
	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	<u>12,670</u>						
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	-	-

(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 and, in case of interests in associated companies and joint ventures, the location of operations.

	Revenue		Non-current assets	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Hong Kong (place of domicile)	2,813,986	463,966	9,530,771	9,282,402
Mainland China	160,342	753,967	5,402,454	5,353,982
Macau	16,000	125,561	1,217,915	997,002
Kazakhstan	157,725	62,623	844,373	1,077,283
Others	2,420	10,634	—	—
	<u>3,150,473</u>	<u>1,416,751</u>	<u>16,995,513</u>	<u>16,710,669</u>

In addition to the above non-current assets, the Group has interests in property development of HK\$10,920,923,000 (2013: HK\$10,614,101,000) and HK\$1,306,497,000 (2013: HK\$1,303,718,000) in Macau and Mainland China respectively.

4 Other net income

Other net income mainly represents a fair value gain on held for trading listed investments HK\$1,522,000 (2013: HK\$3,014,000). For the year ended 31 December 2013, other net income also included a net gain on disposal of investment properties of HK\$235,440,000, impairment of properties written back of HK\$5,218,000 and impairment of an associated company written back of HK\$2,180,000.

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 had been temporarily suspended from 1 January 2013 to late September 2014, as the gas flaring permit to flare associated gas for the South Alibek Oilfield expired on 31 December 2012; and only in late September 2014, after Caspi Neft TME had obtained a gas flaring permit valid until 31 December 2014 did normal crude oil production resume. Caspi Neft TME obtained another gas flaring permit valid for an eight month period till the end of August 2015 in November 2014 such that it can continue to conduct normal crude oil production until then.

Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a certain period so as to enable it to continue to conduct normal crude oil production after 31 August 2015 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.

In view of the significant drop in crude oil prices since the third quarter of 2014, the Group has reassessed the operation and the risk exposures of its oil exploration and production business as a whole and estimated that the carrying amounts of the oil production and exploitation assets as at 31 December 2014 exceeded their estimated recoverable amounts by HK\$212,000,000 (2013: HK\$296,400,000). Accordingly, impairment for oil production assets and oil exploitation assets amounting to HK\$195,400,000 (2013: HK\$273,200,000) and HK\$16,600,000 (2013: HK\$23,200,000) respectively, were recognised as a separate line item in the Group's consolidated income statement. The recoverable amount of oil production and exploitation assets, amounting to HK\$778,116,000 (2013: HK\$992,961,000) and HK\$66,257,000 (2013: HK\$84,322,000) respectively, was determined based on the value in use calculations applying a discount rate of 12.5% (2013: 12.5%).

6 Finance costs

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest on bank loans and overdrafts	118,025	99,133
Interest on loan from ultimate holding company	132,471	108,025
Less : Amount capitalised	<u>(79,257)</u>	<u>(102,500)</u>
	171,239	104,658
Less: Interest expenses included as other operating expenses	<u>(2,481)</u>	<u>(2,609)</u>
	<u>168,758</u>	<u>102,049</u>

7 Profit before taxation

Profit before taxation is arrived at after charging:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Amortisation of oil exploitation assets (<i>Remark</i>)	1,887	2,589
Depreciation and amortisation of fixed assets (<i>Remark</i>)	57,848	35,892
Staff costs (<i>Remark</i>)	<u>212,530</u>	<u>204,994</u>

Remark :

Cost of sales includes HK\$43,135,000 (2013: HK\$19,197,000) 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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	158,006	52,514
– Outside Hong Kong	<u>10,189</u>	<u>54,215</u>
	168,195	106,729
Land appreciation tax (“LAT”)	1,936	12,811
Deferred tax	<u>60,743</u>	<u>(59,969)</u>
	<u>230,874</u>	<u>59,571</u>

The provision for Hong Kong profits tax is calculated at 16.5% (2013: 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 expenditure.

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\$1,040,717,000 (2013: HK\$1,293,672,000) and the weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2013: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2014 and 2013.

10 Dividends

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.21 (2013: HK\$0.21) per share	241,643	241,643
Final dividend proposed after the balance sheet date of HK\$0.36 (2013: 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 of bad and doubtful debts) with an ageing analysis as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current and less than 3 months	426,592	344,628
3 months to 6 months	178	1,239
More than 6 months	<u>6,239</u>	<u>5,528</u>
Trade receivables	433,009	351,395
Utility and other deposits	42,527	70,792
Other receivables and prepayments	<u>268,946</u>	<u>207,122</u>
	<u>744,482</u>	<u>629,309</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:

	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due or on demand	2,576,310	773,047
Within 3 months	35,308	40,066
3 months to 6 months	226	53
More than 6 months	28,743	29,670
	<hr/>	<hr/>
Trade payables	2,640,587	842,836
Rental and other deposits	78,268	73,121
Other payables and accrued expenses	559,018	191,495
Deposits received on sale of properties	2,097,392	1,927,316
	<hr/>	<hr/>
	5,375,265	3,034,768
	<hr/> <hr/>	<hr/> <hr/>

13 Share capital and share premium

Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of “authorised share capital” and “par value” no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account on 3 March 2014 have become part of the company’s share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the shareholders.

FINANCIAL REVIEW

Financial resources and bank borrowings

As at 31 December 2014, the Group had total bank borrowings of HK\$7,918 million (31 December 2013: HK\$5,196 million), with HK\$1,343 million being repayable within one year and HK\$6,575 million being repayable beyond one year. The Group's net borrowings position, after taking into account cash and cash equivalents of HK\$1,157 million, was HK\$6,761 million as at 31 December 2014, increased by HK\$2,189 million compared with as at 31 December 2013. Loan from ultimate holding company amounted to HK\$6,779 million as at 31 December 2014, which showed a decrease of HK\$2,549 million compared with as at 31 December 2013.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from ultimate holding company over equity attributable to shareholders of the Company) slightly dropped to 59.3% as at 31 December 2014 (31 December 2013: 62.5%).

In May 2014, the Group launched the sale of MacPherson Residence in Hong Kong which has provided substantial cash inflows to the Group. During 2014, the Group has recorded cash inflows mainly from sales/presales from various development projects in Hong Kong and Mainland China with approximately HK\$1,416 million and HK\$1,109 million respectively.

In December 2014, the Group has further enhanced its land portfolio by a successful tender of the land situated at Lei Yue Mun in Hong Kong at a premium of HK\$1,582 million. The tender deposit of HK\$25 million was paid in December 2014 and the balance was settled in January 2015.

Furthermore, the Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$1,787 million of construction costs during the year.

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 appropriate.

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

In respect of the Group's oil business in Kazakhstan, the Group has been exposed to the exchange fluctuations in Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2014, 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 31 December 2014, the Group had commitments in connection with the Group's fixed assets amounting to HK\$70 million.

Pledge of assets

As at 31 December 2014, properties having a value of HK\$10,985 million and bank deposits of HK\$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

Contingent liabilities

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to the joint venture amounting to HK\$570 million, representing a 50% proportional guarantee in respect of HK\$1,140 million term loan facilities. The facilities were utilised to the extent of HK\$672 million as at 31 December 2014.

HUMAN RESOURCES

As of 31 December 2014, the Group had a total of 894 employees (2013: 803 employees), of which 473 were Hong Kong staff, 191 were PRC staff and 230 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\$213 million (2013: HK\$205 million) due to salary revisions in July 2014 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 strong competitive edge. The Group had 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 Group's independent auditor, KPMG, the consolidated accounts of the Group for the year ended 31 December 2014 including critical accounting policies and practices adopted by the Group.

Scope of Work of KPMG

The financial figures in this announcement have been agreed by the Group's independent auditor, KPMG, to the amounts set out in the Group's draft consolidated accounts for the year ended 31 December 2014. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants, and consequently no assurance has been expressed by KPMG on this announcement.

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 overall operations 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 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 of the Company held on 11 June 2014 (the "AGM"), other than one Non-executive Director and two Independent Non-executive Directors who were unable to attend the AGM as they were overseas at the time.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2014.

2015 Annual General Meeting

The 2015 Annual General Meeting of the Company will be held on Wednesday, 27 May 2015. The Notice of 2015 Annual General Meeting will be published and dispatched in due course.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 8 June 2015 to Tuesday, 9 June 2015, 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 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, 5 June 2015.

Publication of Annual Report

The 2014 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 24 April 2015.

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

Hong Kong, 18 March 2015

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