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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 2015

HIGHLIGHTS

- For the year ended 31 December 2015, the Group's net profit attributable to shareholders of the Company amounted to HK\$1,202 million compared to HK\$1,041 million in 2014, an increase of 15.5%.
- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2015 rose to HK\$643 million from HK\$618 million in 2014, an increase of 4.0%. The underlying net earnings per share for 2015 were HK\$0.56 compared to HK\$0.54 in 2014.
- In 2015, the Group achieved total presales/sales exceeding HK\$10 billion from its development projects in Hong Kong and Mainland China, an outstanding performance.
- Full year dividend per share for 2015 amounts to HK\$0.58, with a final dividend per share of HK\$0.37.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2015, the Group's net profit attributable to shareholders of the Company amounted to HK\$1,202 million compared to HK\$1,041 million in 2014, an increase of 15.5%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2015 rose to HK\$643 million from HK\$618 million in 2014, an increase of 4.0%. The underlying net earnings per share for 2015 were HK\$0.56 compared to HK\$0.54 in 2014. In 2015, the Group achieved total presales/sales exceeding HK\$10 billion from its development projects in Hong Kong and Mainland China, an outstanding performance.

The Board of Directors has recommended the payment of a final dividend of HK\$0.37 per share (2014: HK\$0.36) for the year ended 31 December 2015. Together with the 2015 interim dividend of HK\$0.21 per share (2014: HK\$0.21), the full year dividend for 2015 amounts to HK\$0.58 per share (2014: HK\$0.57).

The final dividend will be payable on Wednesday, 20 July 2016 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 12 July 2016, subject to the approval of shareholders at the 2016 Annual General Meeting.

BUSINESS REVIEW

In Hong Kong, overall sales in primary residential market were robust in the first half of 2015, especially for small flats. However, anticipation of further interest hikes in the US, together with increasing supply in the primary residential market, had weighed on both transaction prices and volumes in the second half of 2015.

In Mainland China, following the progressive relaxation of home-buying restrictions, overall sentiment in the property market in mid-2015 was improved with the surge of both transaction prices and volumes in the first-tier and the prime second-tier cities. However, the secondary second-tier, third- and fourth-tier cities, especially those with excess supply, have not benefited from the improving sentiment, with no sign of recovery in the transaction prices and volumes. Many of these cities still faced heavy inventory pressure at the end of the year.

In Macau, gross gaming revenue continued to decline considerably throughout 2015 which has adversely affected the performance of the economy. The property market was also unfavourably impacted and the appetite for potential home purchasers was upset amid such economic environment. Consequently, transaction volumes fell substantially in 2015 and overall residential prices have declined by over 30% from their historic highs in the second quarter of 2014.

Development Property Sales

In Hong Kong, in view of the resilient demand for small flats, the Group acted promptly to launch the presale of two new development projects, namely Upper East in Hung Hom and South Coast in Aberdeen. The two projects were well received by the market with satisfactory sales. In 2015, the Group achieved approximately HK\$7 billion of presales/sales from its projects in Hong Kong, which was a new record for the Group.

In Mainland China, total presales/sales generated from the Group's projects exceeding RMB5 billion in 2015, with presales/sales attributable to the Group of approximately RMB3.4 billion.

In Macau, with respect to the Lote P development project (Pearl Horizon), the piling work was completed. However, due to a significant delay in granting various requisite approvals and permits for the project over the past years, the overall construction work could not be completed before the expiry date of its land concession. Despite the application for the land concession with a reasonable compensation of time was made to relevant government departments, it was declined and therefore the construction work needed to be suspended. Polytex Corporation Limited ("PCL"), the registered owner of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has therefore applied to the Courts of Macau to claim for compensation of time. If the applications were ultimately declined, the Macau Special Administrative Region Government (the "Macau SAR Government") would have a right to resume the land without any compensation to the owner of the land. Nevertheless, based on the legal opinions received, PCL has strong legal grounds to obtain compensation of time by applying to the Courts of Macau including Tribunal Administrativo in order to continue and complete the project.

In respect of the Lotes T + T1 development project in Macau, the foundation work was completed in February 2016 and the superstructure work is now in progress.

In 2015, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for the year.

Property Development

As announced on 14 January 2016, the Company entered into a share purchase agreement with Polytec Holdings International Limited, a connected person, regarding the acquisition of the entire issued share capital of Fulleagle Limited which held an indirect interest in Junk Bay Town Lot No. 2 and the Extension thereto and Tseung Kwan O Town Lot No. 22 through its wholly-owned subsidiary, Li Profit Limited. This acquisition was completed on 21 January 2016 and has enhanced the Group's landbank in Hong Kong. The Group is currently in negotiation with the Lands Department about the land premium for this project.

As of 31 December 2015, 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%	Work completed for Occupation Permit application [#]	2016
South Coast	Aberdeen, Hong Kong	Residential	723	5,900	5,900	100%	Fitting-out work in progress	2016/2017
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	34,100	100%	Foundation work completed	2018
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	11,100	100%	Foundation work to commence soon	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	29,200	100%	Foundation work in progress	2019
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	196,400	100%	Land premium in negotiation	To be determined

Major Property Projects under Planning and Development (continued)

Property Project	District/ City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Remaining GFA* (sq m)	Group's Interest	Status	Expected Date of Completion
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Mainland China

Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	542,500	100%	Construction work for the fourth phase in progress	Fourth phase 2018
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	2,000,000	100%	Construction work for the second phase in progress	Second phase IIB 2016/2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	377,200	80%	Construction work for the second phase in progress	Second phase 2017
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	1,099,100	50%	Construction work for the third phase of high rise residential towers in progress	Third phase of high rise residential towers 2016
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	850,000*	49%	Construction work for the second phase in progress	Second phase 2017
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	519,900	60%	Foundation work for the second phase in progress	Second phase 2017/2018

Macau

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

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

Obtained Occupation Permit on 5 February 2016.

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

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2015 rose to HK\$345 million, an increase of 2.2% over 2014. Gross rental income generated from Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose 0.5% to HK\$294 million in 2015; the letting rates of both retail spaces and offices continued at a satisfactory level as of 31 December 2015.

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

Property Investment in Macau

For the year under review, the Group's share of gross rental income generated from its investment properties rose to HK\$50.2 million for the year ended 31 December 2015, an increase of 26% over 2014. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising 25% to HK\$46.4 million in 2015.

Oil

The oil segment recorded a loss of HK\$164 million in 2015 compared with HK\$216 million in 2014, with impairment provisions for the Kazakhstan oil assets of HK\$170 million in 2015 and HK\$212 million in 2014. Despite the favourable impact of a significant depreciation of the Tenge, the currency of Kazakhstan during the year under review, the sector still registered an operating loss of HK\$9.1 million in 2015 due to a further decline in crude oil prices.

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

Ice Manufacturing and Cold Storage

Ice manufacturing and cold storage segment reported a steady performance in 2015 with total operating profit of HK\$28.2 million, an increase of 5.2% over 2014.

PROSPECTS

In Hong Kong, the residential market has cooled down considerably during the first two months in 2016 compared to the same period last year. Anticipation of further interest hikes in the US, together with increasing supply in the primary residential market, has gradually weighed on overall transacted prices. Looking forward, overall sales are expected to face tougher challenges than previous years.

In the first half of 2016, the Group will continue to promote the sales of the remaining units of its five development projects located in Hong Kong Island and Kowloon. The presale of a new high-end residential project in Pok Fu Lam Road is expected to launch in the second half of 2016.

In Mainland China, the central government's objectives and actions to reduce residential market inventory will further boost the flat sales in the first- and second-tier cities. It is expected to stimulate sales in the third- and fourth-tier cities as well. As and when the market improves further, the Group will act promptly to launch more residential units for presale/sale in order to lay a good foundation for future results.

In Macau, with respect to the lawsuit relating to the Lote P development project (Pearl Horizon), it is expected that a hearing date will be fixed by the Court in the near future. The construction work will be resumed, subject to a favourable judgment from the Court being obtained and relevant approvals being given by the Macau SAR Government. It will endeavour to complete the project as soon as possible and deliver the flats to the waiting buyers.

In respect to the Lotes T + T1 development project, the construction work is being expedited aiming for completion and obtaining an occupation permit in mid-2017. A presale programme of its residential units will be launched in due course.

Looking ahead, the Group's core income for 2016 will be mainly generated from its property development projects in Hong Kong and Mainland China. In addition, the Group expects its property investment portfolios in Hong Kong and Macau, as well as its ice manufacturing and cold storage business, will continue to generate stable income in 2016. If the crude oil prices hover at the current low levels throughout the year, the Group's oil business in Kazakhstan is not expected to make any contribution to its earnings in 2016.

Over the past few years, the Group has strived to improve its competitiveness in the property business which has created favourable conditions for its future growth. In spite of facing tougher challenges in the Hong Kong and Macau property markets, the Group's development projects in Mainland China are expected to make a bigger contribution to the Group's results in 2016.

Last but not least, 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 2015 together with the comparative figures of 2014 are as follows:

Consolidated Income Statement

for the year ended 31 December 2015

	<i>Note</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Turnover	3	3,992,952	3,150,473
Cost of sales		(2,467,218)	(1,613,698)
Other revenue		27,651	44,281
Other net income	4	154,594	2,779
Depreciation and amortisation		(17,852)	(17,404)
Staff costs		(206,505)	(184,489)
Selling, marketing and distribution expenses		(365,783)	(257,699)
Impairment of oil production and exploitation assets	5	(170,000)	(212,000)
Other operating expenses		(114,069)	(87,963)
Fair value changes on investment properties		441,674	363,058
Profit from operations		1,275,444	1,187,338
Finance costs	6	(162,762)	(168,758)
Share of profits/(losses) of associated companies		3,939	(19,865)
Share of profits of joint ventures		290,711	285,237
Profit before taxation	7	1,407,332	1,283,952
Income tax	8	(177,872)	(230,874)
Profit for the year		1,229,460	1,053,078
Attributable to:			
Shareholders of the Company		1,202,040	1,040,717
Non-controlling interests		27,420	12,361
Profit for the year		1,229,460	1,053,078
Earnings per share – Basic/Diluted	9	HK\$1.04	HK\$0.90

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015

	2015 <i>HK'000</i>	2014 <i>HK'000</i>
Profit for the year	<u>1,229,460</u>	<u>1,053,078</u>
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(247,962)	(12,532)
Changes in fair value of interests in property development	(112,549)	309,601
Share of other comprehensive income of joint ventures and associated companies	<u>(180,384)</u>	<u>(12,349)</u>
	<u>(540,895)</u>	<u>284,720</u>
Total comprehensive income for the year	<u>688,565</u>	<u>1,337,798</u>
Attributable to:		
Shareholders of the Company	711,465	1,245,009
Non-controlling interests	<u>(22,900)</u>	<u>92,789</u>
Total comprehensive income for the year	<u>688,565</u>	<u>1,337,798</u>

Consolidated Statement of Financial Position

		At 31 December 2015		At 31 December 2014	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Investment properties			11,156,633		10,646,498
– Leasehold land held for own use			203,279		209,884
– Other property, plant and equipment	5		616,389		837,103
			<hr/>		<hr/>
			11,976,301		11,693,485
Oil exploitation assets	5		49,325		66,257
Interests in property development	11		12,114,871		12,227,420
Interest in joint ventures			3,140,725		2,953,007
Interest in associated companies			2,137,106		2,282,764
Loans and advances	12		895,742		54,221
Deferred tax assets			116,244		109,309
			<hr/>		<hr/>
			30,430,314		29,386,463
Current assets					
Inventories		16,273,680		17,079,825	
Trade and other receivables	12	1,495,488		744,482	
Loans and advances	12	29,760		15,985	
Amount due from a joint venture		56,209		40,009	
Financial investments		–		21,945	
Pledged bank deposits		15,000		15,000	
Cash and bank balances		1,176,439		1,157,340	
		<hr/>		<hr/>	
		19,046,576		19,074,586	
		<hr/>		<hr/>	

		At 31 December 2015		At 31 December 2014	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	13	6,173,325		5,375,265	
Amounts due to					
non-controlling interests		200,000		200,000	
Amount due to a joint venture		741,841		787,838	
Bank loans		1,796,600		1,343,400	
Current taxation		161,144		332,703	
			9,072,910		8,039,206
Net current assets			9,973,666		11,035,380
Total assets less current liabilities			40,403,980		40,421,843
Non-current liabilities					
Loan from ultimate holding					
company		5,587,640		6,778,980	
Loan from a fellow subsidiary		851,803		–	
Bank loans		6,910,458		6,574,346	
Other payables		23,342		38,679	
Deferred tax liabilities		927,126		950,651	
			14,300,369		14,342,656
NET ASSETS			26,103,611		26,079,187
Capital and reserves					
Share capital		8,417,472		8,417,472	
Reserves		14,476,678		14,421,101	
Total equity attributable to the shareholders of the Company			22,894,150		22,838,573
Non-controlling interests			3,209,461		3,240,614
TOTAL EQUITY			26,103,611		26,079,187

Notes

1 Basis of preparation

The financial statements 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, 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. The financial statements 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 financial information relating to the financial years ended 31 December 2015 and 2014 included in this announcement of annual results does not constitute the Company’s statutory annual consolidated financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2015 in due course. The Company’s auditor has reported on those financial statements for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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 the financial statements.

2 Changes in accounting policies

The HKICPA has issued a few 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 financial statements:

- Annual Improvements to HKFRSs 2010–2012 Cycle
- Annual Improvements to HKFRSs 2011–2013 Cycle

These amendments do not have an impact on the Group’s results and financial position for the current or prior periods.

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 after excluding fair value changes on investment properties, finance costs, exceptional items and head office and corporate income/expenses.

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

3 Segment reporting (continued)

(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.

	2015						
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Turnover	3,992,952	2,208,124	1,032,017	2,000	344,727	214,724	191,360
Reportable segment profit	1,086,794	588,528	67,273	4,602	384,693	(164,364)	206,062
Other net income	2,096	-	-	-	2,096	-	-
Fair value changes on investment properties	441,674	-	-	-	441,674	-	-
Share of fair value changes on investment properties of a joint venture	174,240	-	-	-	174,240	-	-
Head office and corporate expenses	(134,710)						
Finance costs	(162,762)						
Profit before taxation	1,407,332						
Share of profits of associated companies	3,939	-	2,773	-	-	-	1,166
Share of profits of joint ventures	290,711	-	57,953	-	232,758	-	-
Interest income	30,479	-	-	-	-	-	30,479
Depreciation and amortisation	(81,259)	-	-	-	-	(63,571)	(17,688)
Impairment of oil production and exploitation assets	(170,000)	-	-	-	-	(170,000)	-
Gain on disposal of subsidiaries	152,498	-	-	-	-	-	152,498

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2014						
	Property development				Property investment	Oil	Others
	Consolidated	Hong Kong	Mainland China	Macau			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	3,150,473	2,342,189	144,672	16,000	337,309	157,725	152,578
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	(168,758)						
Profit before taxation	1,283,952						
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)	–

3 Segment reporting (continued)

(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	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	2,728,280	2,813,986	10,073,041	9,530,771
Mainland China	1,047,948	160,342	5,220,449	5,402,454
Macau	2,000	16,000	1,396,225	1,217,915
Kazakhstan	214,724	157,725	613,742	844,373
Others	–	2,420	–	–
	3,992,952	3,150,473	17,303,457	16,995,513

In addition to the above non-current assets, the Group has interests in property development of HK\$10,819,508,000 (2014: HK\$10,920,923,000) and HK\$1,295,363,000 (2014: HK\$1,306,497,000) in Macau and Mainland China respectively.

4 Other net income

Other net income mainly represents gain on disposal of subsidiaries of HK\$152,498,000 (2014: HK\$Nil) and a fair value gain on held for trading listed investments of HK\$Nil (2014: HK\$1,522,000).

5 Impairment of oil production and exploitation assets

During the year, a gas flaring permit for the South Alibek Oilfield was obtained by Caspi Neft TME, a wholly-owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group) in Kazakhstan, with validity for a one-year period till the end of December 2016 such that normal crude oil production could be conducted until then.

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

In view of the significant drop in crude oil prices in 2015, 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 2015 exceeded their estimated recoverable amounts by HK\$170,000,000 (2014: HK\$212,000,000). Accordingly, impairment for oil production assets and oil exploitation assets amounting to HK\$156,400,000 (2014: HK\$195,400,000) and HK\$13,600,000 (2014: HK\$16,600,000) respectively, was 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\$564,417,000 (2014: HK\$778,116,000) and HK\$49,325,000 (2014: HK\$66,257,000) respectively, was determined based on the value in use calculations applying a discount rate of 12.5% (2014: 12.5%).

6 Finance costs

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest on bank loans and overdrafts	151,314	118,025
Interest on loans from ultimate holding company and a fellow subsidiary	114,527	132,471
Less: Amount capitalised	<u>(96,442)</u>	<u>(79,257)</u>
	169,399	171,239
Less: Interest expenses included as other operating expenses	<u>(6,637)</u>	<u>(2,481)</u>
	<u>162,762</u>	<u>168,758</u>

7 Profit before taxation

Profit before taxation is arrived at after charging:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Amortisation of oil exploitation assets (<i>Remark</i>)	3,332	1,887
Depreciation and amortisation of fixed assets (<i>Remark</i>)	77,927	57,848
Staff costs (<i>Remark</i>)	<u>233,432</u>	<u>212,530</u>

Remark:

Cost of sales includes HK\$73,267,000 (2014: HK\$43,135,000) 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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	145,712	158,006
– Outside Hong Kong	<u>27,695</u>	<u>10,189</u>
	173,407	168,195
Land appreciation tax (“LAT”)	23,770	1,936
Deferred tax	<u>(19,305)</u>	<u>60,743</u>
	<u>177,872</u>	<u>230,874</u>

8 Income tax (continued)

The provision for Hong Kong profits tax is calculated at 16.5% (2014: 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 sale of properties less deductible expenditure including cost 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\$1,202,040,000 (2014: HK\$1,040,717,000) and the weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2014: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2015 and 2014.

10 Dividends

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.21 (2014: HK\$0.21) per share	241,643	241,643
Final dividend proposed after the end of the reporting period of HK\$0.37 (2014: HK\$0.36) per share	425,752	414,245
	<u>667,395</u>	<u>655,888</u>

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

11 Interests in property development

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

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

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

As the outcome of these court proceedings is still uncertain, management of the Company have taken into account all available evidence, including the opinion of legal experts, in preparing the discounted cash flow model in order to assess the fair value of the project. Management of the Company believe that PCL has strong legal grounds to obtain a favourable judgment so that the Lote P development project could be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgment being obtained and relevant approvals being given by the Macau SAR Government. No impairment for the interests in property development was considered necessary at 31 December 2015.

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

12 Trade and other receivables/Loans and advances

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current	1,880,510	426,230
Within 3 months	28,368	58,757
3 months to 6 months	1,693	178
More than 6 months	15,386	18,050
	<hr/>	<hr/>
Trade receivables and loans and advances	1,925,957	503,215
Utility and other deposits	36,144	42,527
Other receivables and prepayments	458,889	268,946
	<hr/>	<hr/>
	2,420,990	814,688
	<hr/> <hr/>	<hr/> <hr/>

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

13 Trade and other payables

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Not yet due or on demand	1,173,878	2,576,310
Within 3 months	54,428	35,308
3 months to 6 months	121	226
More than 6 months	27,295	28,743
	<hr/>	<hr/>
Trade payables	1,255,722	2,640,587
Rental and other deposits	77,179	78,268
Other payables and accrued expenses	608,355	559,018
Deposits received on sale of properties	4,232,069	2,097,392
	<hr/>	<hr/>
	6,173,325	5,375,265
	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REVIEW

Financial resources and bank borrowings

As at 31 December 2015, the Group had total bank borrowings of HK\$8,707 million (31 December 2014: HK\$7,918 million), with HK\$1,797 million being repayable within one year and HK\$6,910 million being repayable after one year. The Group's net borrowings position was HK\$7,531 million as at 31 December 2015, after taking into account cash and cash equivalents of HK\$1,176 million, which increased by HK\$770 million compared to 31 December 2014. Loans from ultimate holding company and a fellow subsidiary dropped by HK\$340 million since 31 December 2014 and amounted to HK\$6,439 million in total as at 31 December 2015.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) was 61.0% as at 31 December 2015 (31 December 2014 : 59.3%).

The Group launched the presales of two development projects in Hong Kong, namely Upper East and South Coast, in the second half of 2015. Also, the Group continued to boost the sale for the remaining units of the two completed projects (MacPherson Residence and Cadogan) in Hong Kong and hence contributed further cash inflows to the Group. During 2015, the Group has recorded cash inflows mainly from sales/presales of various development projects in Hong Kong and Mainland China of approximately HK\$2,941 million and HK\$1,917 million respectively.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$2,114 million for construction costs during the year. Furthermore, the Group has settled the remaining balance of the land premium of HK\$1,557 million for the successful tender of the land situated at Lei Yue Mun, Hong Kong. The handover of the land was completed in mid-January 2015 which has further enhanced the land portfolio of the Group in Hong Kong.

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

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2015, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

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

Capital commitments

As at 31 December 2015, the Group had commitments in connection with the Group's fixed assets amounting to HK\$68 million.

Pledge of assets

As at 31 December 2015, properties having a value of HK\$15,409 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\$591 million, representing a 50% proportional guarantee in respect of HK\$1,182 million term loan facilities. The facilities were fully utilised as at 31 December 2015.

HUMAN RESOURCES

As of 31 December 2015, the Group had a total of 890 employees (2014: 894 employees), of which 500 were Hong Kong staff, 175 were Mainland China staff and 215 were staff in other regions. During the year, total staff costs increased to HK\$233 million (2014: HK\$213 million) due to salary revisions in July 2015. 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 Company's auditor, KPMG, Certified Public Accountants, the consolidated financial statements of the Group for the year ended 31 December 2015 including critical accounting policies and practices adopted by the Group.

Scope of Work of KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2015 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2015 and the amounts were found to be in agreement. 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 27 May 2015 (the "AGM"), other than two Independent Non-executive Directors who were unable to attend the AGM as they had other business engagements at the time.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2015.

2016 Annual General Meeting

The 2016 Annual General Meeting of the Company will be held on Tuesday, 28 June 2016. The Notice of 2016 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, 11 July 2016 to Tuesday, 12 July 2016, 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, 8 July 2016.

Publication of Annual Report

The 2015 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 29 April 2016.

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

Hong Kong, 23 March 2016

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