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 2016

HIGHLIGHTS

- For the year ended 31 December 2016, the Group's net profit attributable to shareholders of the Company amounted to HK$947 million compared to HK$1,202 million in 2015, a decrease of 21.2%.
- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2016 rose to HK$818 million from HK$643 million in 2015, an increase of 27.2% over 2015. The underlying net earnings per share for 2016 were HK$0.71 compared to HK$0.56 in 2015.
- Total presales/sales attributable to the Group from its development projects in Hong Kong and Mainland China exceeded HK$8.5 billion in 2016.
- Full year dividend per share for 2016 amounts to HK$0.60, with a final dividend per share of HK$0.39.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2016, the Group's net profit attributable to shareholders of the Company amounted to HK$947 million compared to HK$1,202 million in 2015, a decrease of 21.2%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2016 rose to HK$818 million from HK$643 million in 2015, an increase of 27.2% over 2015. The underlying net earnings per share for 2016 were HK$0.71 compared to HK$0.56 in 2015. Total presales/sales attributable to the Group from its development projects in Hong Kong and Mainland China exceeded HK$8.5 billion in 2016.

The Board of Directors has recommended the payment of a final dividend of HK$0.39 per share (2015: HK$0.37) for the year ended 31 December 2016. Together with the 2016 interim dividend of HK$0.21 per share (2015: HK$0.21), the full year dividend for 2016 amounts to HK$0.60 per share (2015: HK$0.58).

The final dividend will be payable on Wednesday, 5 July 2017 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 20 June 2017, subject to the approval of shareholders at the 2017 Annual General Meeting.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, the recovery in the residential property market since the second quarter of 2016 was solid, with overall transaction volumes picking up substantially in the second half of 2016, up over 70% from the first half of 2016 and transacted prices also rising gradually, up 11% in December 2016 from the lows in the first quarter of 2016. The strong rebound in the transaction volumes in the second half of 2016 has been particularly evident in the primary residential market, rising 98% from the first half of 2016, which has benefitted from improving market sentiment and prevailing low interest rates together with the incentive schemes offered by property developers to boost their property sales.

In Mainland China, the strong revival in the housing market since the start of 2016 has been largely seen in the first-tier and some of the second-tier cities, where the housing prices have been rising rapidly and the rate of increase in the transacted prices exceeded the Central Government's directive for the property market, that is, to maintain a healthy and stable development. As a result, additional restrictive measures on the property market have been imposed. After imposition of various cooling measures sequentially, both transacted prices and transaction volumes have slowed considerably. Therefore, the purchasing power is expected to shift to those cities with no home-buying restrictions. This would benefit some of the third- and fourth-tier cities.

In Macau, following a two-year downturn, overall housing activity saw a strong rebound in 2016, average transacted residential property prices rising over 20% in the second half of 2016 from the trough in the first half and more importantly, the residential transaction volumes in 2016 surging remarkably, up an average of 70% following a decline of 37% and 22% in 2014 and 2015 respectively.

Development Property Sales

In Hong Kong, the Group obtained the occupation permits for Upper West and South Coast, its 100%-owned development projects in Tai Kok Tsui and Aberdeen, in February and November 2016 respectively, with all residential units at Upper West and over 93% residential units at South Coast being sold so far. Total attributable sales proceeds from all the Group's development projects currently for sale amounted to approximately HK$1.7 billion in 2016.

In Mainland China, the Group actively launched additional residential units for presale/sale for the year under review. They were well received by the market, particularly the Group's 49%-owned development project in Tianjin, City Plaza which alone generated attributable presales exceeding RMB3 billion in 2016. Total attributable presales/sales proceeds from all the Group's development projects, among others, the joint venture project in Foshan, a 49%-owned project in Tianjin and a 60% interest project in Huizhou, amounted to approximately RMB6.3 billion (approximately HK$7.1 billion) in 2016.

In Macau, the topping-out of the superstructure work of the Lotes T + T1 development project (La Marina) was completed in the fourth quarter of 2016 and the façade and interior fitting-out works are being expedited. For the year under review, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for 2016.

With respect to the Lote P development project (Pearl Horizon) in Macau, 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 applied to the Courts of Macau to claim for compensation of time. If the applications are ultimately declined, the Macau Government would have a right to resume the land without any compensation to the owner of the land. Nevertheless, based on the opinions provided by the Group's legal counsel, PCL has strong legal grounds to obtain confirmation from the Courts of Macau that the administrative delays had been caused by the relevant government authorities and therefore PCL is entitled to obtain compensation of time to enable it to complete the project. Currently, the Group is still awaiting hearing dates to be fixed by the Courts of Macau for the legal proceedings.

Property Development

In Hong Kong, following the Group's appeal against the land premium assessed for Tseung Kwan O Town Lot No. 121 (the "New Lot"), which is a new site for which the Group proposed a land exchange for its currently owned land in Tseung Kwan O with the government, in September 2015 and subsequently a series of negotiations with the Lands Department, the Sai Kung District Lands Office revised its offer of the premium for the New Lot in December 2016. The Group reached an agreement with the government, with the premium offer being officially accepted by the Group on 18 January 2017. After completion of the formalities of the land premium and the land exchange in April 2017, the New Lot will be wholly-owned by the Group. The site area of the New Lot is approximately 9,635 sq m, with a maximum gross floor area ("GFA") for private residential development of 48,200 sq m, which will strengthen the Group's readily developable landbank in Hong Kong.

As of 31 December 2016, the Group's landbank for development amounted to approximately 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. Total GFA Booked※ (sq m)**	**Group's Interest**	**Status**	**Expected Date of Completion**
Hong Kong								
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	-	100%	Construction work in progress	2018
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	-	100%	Foundation work in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	-	100%	Construction work in progress	2019
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	-	100%	Land premium negotiation in progress	To be determined

Note: Two property projects in Hong Kong, namely Upper West and South Coast respectively, were completed during the year under review.

Major Property Projects under Planning and Development (continued)

Property Project	District/ City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	29,300	49%	Certificate of completion for the second phase obtained in December 2016	Third phase to be determined
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	248,100	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	329,800	100%	Construction work for the first phase B in progress	First phase B 2017
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	61,300	80%	Construction work for the second phase in progress	Second phase 2017
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	82,300	60%	Construction work for the second phase in progress	Second phase 2018
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	648,600	50%	Construction work for the fourth phase of high rise residential towers in progress	Fourth phase of high rise residential towers 2017
Macau								
Pearl Horizon	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	-	58.8%	Suspended	To be determined
La Marina	Lotes T + T1, Novos Aterros da Areia Preta	Residential & commercial	17,900	195,600	-	58.8%	Topping-out of superstructure work completed; façade and interior fitting-out works in progress	Mid-2017

※ Approx. total GFA booked and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2016 fell to HK$341 million, a decrease of 1.1% over 2015, with the overall occupancy rate for the property investment portfolio remaining high at approximately 95% as of 31 December 2016.

The decrease in rental income in 2016 was mainly due to the unexpected close down of DSC, a furniture chain store and one of the top tenants which occupied units over 7% of total floor area of Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, in August 2015 and subsequent considerable period of time marketing the units which reduced overall rental income in 2016. Encouragingly, the units previously occupied by DSC were approximately 90% re-let by 31 December 2016. Total rental income from Pioneer Centre fell 1.3% to HK$290 million in 2016, with most of retail spaces and offices being let as of 31 December 2016.

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

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

Property Investment in Macau

For the year under review, the Group's share of gross rental income generated from its investment properties rose to HK$58.2 million, representing an increase of 16.1% over 2015. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK$53.9 million in 2016 from HK$46.4 million in 2015.

Oil

The oil segment recorded an operating loss of HK$30.2 million in 2016 compared to an operating loss of HK$164 million in 2015. While the operating loss in 2015 was mainly due to the impairment provision of HK$170 million made for the Group's oil assets in Kazakhstan, the operating loss for 2016 was attributable to a further decline of 15% for the period from 2015 in crude oil prices. No further impairment was made for the Group's oil assets in Kazakhstan in 2016 because for the year under review the international oil prices rose from their lows in the first quarter and reached above US$50 per barrel as at 31 December 2016, anticipating the trend of international oil prices to gradually recover from its current lows in the coming years.

Ice Manufacturing and Cold Storage

During the year, the total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$34.2 million, an increase of 21.5% over 2015. The increase in operating profit was attributable to an overall improvement in operations and business expansion.

PROSPECTS

In Hong Kong, despite additional measures imposed by the government to cool the housing market in November 2016, the impact on the property market was only short-lived. With the prevailing low interest rates and the record high transacted land prices in the recent land auctions, sentiment in the primary property market has been holding up well, with home buyers' confidence remaining generally strong. In view of favourable market sentiment, the Group will continue to promote the sale of a small number of remaining units of its four wholly-owned development projects, and it intends to launch the presale of its high-end residential development project in Pok Fu Lam Road in the second quarter of 2017.

In Mainland China, as the housing prices in the majority of first- and second-tier cities surged noticeably in 2016, further restrictive measures on the housing market will likely be imposed by the government in the near future. However, the Group will continue to expedite the sale of residential units of its various projects this year as it did in 2016. In addition, the Group will also continue to explore good investment opportunities and replenish its landbank in the first-tier and their neighbouring cities, with some of the development projects in negotiation likely to be concluded shortly further strengthening its landbank.

In Macau, the topping-out of superstructure work of the Lotes T + T1 development project (La Marina) was completed in the fourth quarter of 2016. The Group is making best efforts to expedite the façade and interior fitting-out works and the progress is satisfactory. The Group will endeavour to ensure that an occupation permit is obtained by the middle of 2017 and that the completed residential units will be delivered to the buyers in the fourth quarter of 2017. The related income from the project is expected to make a contribution to the Group's earnings in the coming years. With respect to the Lote P development project (Pearl Horizon), all possible approaches are being actively explored in order to be able to resume the construction work as soon as possible.

Looking ahead, the Group's core income for 2017 will be mainly generated from its property development projects in Hong Kong and Mainland China. In addition, the sales from the property development project in Macau, Lotes T + T1 (La Marina), are expected to be recognised from 2017 onwards. Furthermore, 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 2017. For the Group's oil business, it believes that the rate of increase in crude oil prices will slow down in 2017 and therefore the oil business in Kazakhstan is not expected to make a contribution to its earnings in 2017. The Group will fully assess its oil business in 2017 aiming to come up with the best strategy for it.

While overall property development in the Greater China region has faced substantial cost pressures over the past few years, the Group remains well positioned in Mainland China, Macau and Hong Kong, with its relatively competitive landbank in all three markets, having laid a solid foundation for sustainable earnings growth for the coming years.

The Group is currently facing different challenges in each of the three markets it presently has exposure and I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow directors for their support and all staff for their dedication, hard work and contribution.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2016 together with the comparative figures of 2015 are as follows:

Consolidated Income Statement
for the year ended 31 December 2016

	Note	**2016** **HK$'000**	2015 HK$'000
Revenue	*3*	**6,777,949**	3,992,952
Cost of sales		**(5,249,338)**	(2,467,218)
Other revenue		**23,095**	27,651
Other net (expenses)/income	*4*	**(274,416)**	154,594
Depreciation and amortisation		**(17,057)**	(17,852)
Staff costs		**(201,918)**	(206,505)
Selling, marketing and distribution expenses		**(306,349)**	(365,783)
Impairment of oil production and exploitation assets	*5*	**–**	(170,000)
Other operating expenses		**(70,779)**	(114,069)
Fair value changes on investment properties		**114,908**	441,674
Profit from operations		**796,095**	1,275,444
Finance costs	*6*	**(126,479)**	(162,762)
Share of profits of associated companies		**145,891**	3,939
Share of profits of joint ventures		**186,716**	290,711
Profit before taxation	*7*	**1,002,223**	1,407,332
Income tax	*8*	**(47,201)**	(177,872)
Profit for the year		**955,022**	1,229,460
Attributable to:			
Shareholders of the Company		**946,737**	1,202,040
Non-controlling interests		**8,285**	27,420
Profit for the year		**955,022**	1,229,460
Earnings per share – Basic/Diluted	*9*	**HK$0.82**	HK$1.04

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Profit for the year	**955,022**	1,229,460
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	**(294,356)**	(247,962)
Changes in fair value of interests in property development	**1,274,011**	(112,549)
Share of other comprehensive income of joint ventures and associated companies	**(268,806)**	(180,384)
	710,849	(540,895)
Total comprehensive income for the year	**1,665,871**	688,565
Attributable to:		
Shareholders of the Company	**1,352,938**	711,465
Non-controlling interests	**312,933**	(22,900)
Total comprehensive income for the year	**1,665,871**	688,565

Consolidated Statement of Financial Position

At 31 December 2016

	Note	**2016**		2015	
		HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets					
Investment properties			**11,600,514**		11,156,633
Property, plant and equipment	*5*		**780,012**		819,668
Oil exploitation assets	*5*		**48,156**		49,325
Interests in property development	*11*		**13,388,882**		12,114,871
Interest in joint ventures			**3,121,235**		3,140,725
Interest in associated companies			**1,796,371**		2,137,106
Loans and advances	*12*		**871,855**		895,742
Deferred tax assets			**176,058**		116,244
			31,783,083		30,430,314
Current assets					
Inventories		**12,083,996**		16,273,680	
Trade and other receivables	*12*	**1,797,498**		1,495,488	
Loans and advances	*12*	**24,816**		29,760	
Amount due from a joint venture		**72,452**		56,209	
Pledged bank deposit		**15,000**		15,000	
Cash and bank balances		**795,400**		1,176,439	
		14,789,162		19,046,576	

	Note	2016 HK$'000	2016 HK$'000	2015 HK$'000	2015 HK$'000
Current liabilities					
Trade and other payables	*13*	**5,166,617**		6,173,325	
Amounts due to non-controlling interests		**200,000**		200,000	
Amount due to a joint venture		**694,793**		741,841	
Loan from an associated company		**35,781**		–	
Bank loans		**2,544,200**		1,796,600	
Current taxation		**82,268**		161,144	
		8,723,659		9,072,910	
Net current assets			**6,065,503**		9,973,666
Total assets less current liabilities			**37,848,586**		40,403,980
Non-current liabilities					
Loan from ultimate holding company		**1,534,546**		5,587,640	
Loan from a fellow subsidiary		**814,056**		851,803	
Bank loans		**7,525,853**		6,910,458	
Other payables		**21,409**		23,342	
Deferred tax liabilities		**861,838**		927,126	
			10,757,702		14,300,369
NET ASSETS			**27,090,884**		26,103,611
Capital and reserves					
Share capital			**8,417,472**		8,417,472
Reserves			**15,162,221**		14,476,678
Total equity attributable to the shareholders of the Company			**23,579,693**		22,894,150
Non-controlling interests			**3,511,191**		3,209,461
TOTAL EQUITY			**27,090,884**		26,103,611

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 2016 and 2015 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 2015 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 2016 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 these financial statements.

2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

3 Segment reporting

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

– Property development segment (Hong Kong/Mainland China/Macau): the development and sale of properties and interests in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

– Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

– Oil segment: oil exploration and production.

– Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

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

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.

	2016						
		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**6,777,949**	**2,435,347**	**3,719,192**	**–**	**340,841**	**77,377**	**205,192**
Reportable segment profit	**1,378,040**	**511,892**	**407,718**	**5,620**	**386,604**	**(30,238)**	**96,444**
Other net expenses	**(274,416)**	**–**	**(276,000)**	**–**	**1,584**	**–**	**–**
Fair value changes on investment properties	**114,908**	**–**	**–**	**–**	**114,908**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**37,400**	**–**	**–**	**–**	**37,400**	**–**	**–**
Head office and corporate expenses	**(127,230)**						
Finance costs	**(126,479)**						
Profit before taxation	**1,002,223**						
Share of profits of associated companies	**145,891**	**–**	**143,030**	**–**	**–**	**–**	**2,861**
Share of profits of joint ventures	**186,716**	**–**	**83,302**	**–**	**103,414**	**–**	**–**
Interest income	**66,346**	**–**	**–**	**–**	**–**	**–**	**66,346**
Write down of inventories	**(276,000)**	**–**	**(276,000)**	**–**	**–**	**–**	**–**
Depreciation and amortisation	**(50,281)**	**–**	**–**	**–**	**–**	**(33,333)**	**(16,948)**

	2015						
		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	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)

	2016						
		Property development					
	Consolidated	**Hong Kong**	**Mainland China**	**Macau**	**Property investment**	**Oil**	**Others**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Reportable segment assets	**45,556,737**	**7,819,996**	**10,741,145**	**12,131,166**	**13,046,339**	**605,925**	**1,212,166**
Deferred tax assets	**176,058**						
Pledged bank deposit	**15,000**						
Cash and bank balances	**795,400**						
Head office and corporate assets	**29,050**						
Consolidated total assets	**46,572,245**						
Interest in associated companies	**1,796,371**	**–**	**1,767,208**	**–**	**–**	**–**	**29,163**
Interest in and amounts due from joint ventures	**3,193,687**	**–**	**1,760,291**	**–**	**1,433,396**	**–**	**–**

	2015						
		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	48,142,902	8,849,947	13,976,353	10,901,324	12,558,019	636,411	1,220,848
Deferred tax assets	116,244						
Pledged bank deposit	15,000						
Cash and bank balances	1,176,439						
Head office and corporate assets	26,305						
Consolidated total assets	49,476,890						
Interest in associated companies	2,137,106	–	2,109,334	–	–	–	27,772
Interest in and amounts due from joint ventures	3,196,934	–	1,800,709	–	1,396,225	–	–

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**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**2,958,371**	2,728,280	**10,450,586**	10,073,041
Mainland China	**3,742,201**	1,047,948	**4,880,498**	5,220,449
Macau	**–**	2,000	**1,433,396**	1,396,225
Kazakhstan	**77,377**	214,724	**581,808**	613,742
	6,777,949	3,992,952	**17,346,288**	17,303,457

In addition to the above non-current assets, the Group has interests in property development of HK$12,060,840,000 (2015: HK$10,819,508,000) and HK$1,328,042,000 (2015: HK$1,295,363,000) in Macau and Mainland China respectively.

4 Other net (expenses)/income

Other net expenses mainly represent the write down of inventories of HK$276,000,000 (2015: other net income mainly represented a gain on disposal of subsidiaries of HK$152,498,000).

5 Oil production and exploitation assets

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly-owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group) in Kazakhstan, will expire on 30 June 2017.

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 30 June 2017 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 the above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 31 December 2016, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No further impairment is considered necessary for the year ended 31 December 2016. In 2015, in view of the significant drop in crude oil prices, the carrying amounts of oil production and exploitation assets exceeded their estimated recoverable amounts. Accordingly, impairment for oil production assets and oil exploitation assets amounting to HK$156,400,000 and HK$13,600,000 respectively, was recognised in the Group's consolidated income statement. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (2015: 12.5%).

6 Finance costs

	2016	2015
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**142,303**	151,314
Interest on loan from ultimate holding company and a fellow subsidiary	**72,226**	114,527
Less: Amount capitalised	**(88,050)**	(96,442)
	126,479	169,399
Less: Interest expenses included as other operating expenses	**-**	(6,637)
	126,479	162,762

7 Profit before taxation

Profit before taxation is arrived at after charging:

	2016	2015
	HK$'000	*HK$'000*
Amortisation of oil exploitation assets *(Remark)*	**1,169**	3,332
Depreciation and amortisation of property, plant and equipment *(Remark)*	**49,112**	77,927
Staff costs *(Remark)*	**241,841**	233,432
Less: Amount capitalised	**(11,916)**	-
	229,925	233,432

Remark:
Cost of sales includes HK$39,220,000 (2015: HK$73,267,000) 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

	2016	2015
	HK$'000	*HK$'000*
Current tax		
Provision for profits tax		
– Hong Kong	**117,363**	145,712
– Outside Hong Kong	**31,397**	27,695
	148,760	173,407
Land appreciation tax ("LAT")	**11,556**	23,770
Deferred tax	**(113,115)**	(19,305)
	47,201	177,872

The provision for Hong Kong profits tax is calculated at 16.5% (2015: 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 the costs of land use rights, borrowing 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$946,737,000 (2015: HK$1,202,040,000) and the weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2015: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2016 and 2015.

10 Dividends

	2016	2015
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK$0.21 (2015: HK$0.21) per share	**241,643**	241,643
Final dividend proposed after the end of the reporting period of HK$0.39 (2015: HK$0.37) per share	**448,766**	425,752
	690,409	667,395

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 the 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 arrangements and other key terms of the co-investment agreements were disclosed in the Company's Circular dated 23 May 2006. Interests in property development are stated at fair value at the end of the reporting period.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the land use was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ending on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to 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 for remedies in all aspects to continue and complete the project. A few legal actions have been initiated by the legal representatives of PCL and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of PCL to claim for compensation of time in order to allow the completion of the construction work of the Lote P development project and deliver the properties to the respective purchasers. Currently, the Group is still awaiting hearing dates to be fixed by the Courts of the Macau SAR for the legal proceedings.

11 Interests in property development (continued)

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 will 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 2016.

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

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 (based on the due date) as follows:

	2016	2015
	HK$'000	*HK$'000*
Current	**2,310,407**	1,880,510
Within 3 months	**16,648**	28,368
3 months to 6 months	**350**	1,693
More than 6 months	**3,709**	15,386
Trade receivables and loans and advances	**2,331,114**	1,925,957
Utility and other deposits	**42,875**	36,144
Other receivables and prepayments	**320,180**	458,889
	2,694,169	2,420,990

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

13 Trade and other payables

Included in this item are trade payables with an ageing analysis (based on the due date) as follows:

	2016	2015
	HK$'000	*HK$'000*
Not yet due or on demand	**1,692,225**	1,173,878
Within 3 months	**7,422**	54,428
3 months to 6 months	**18**	121
More than 6 months	**3**	27,295
Trade payables	**1,699,668**	1,255,722
Rental and other deposits	**74,824**	77,179
Other payables and accrued expenses	**463,844**	608,355
Deposits received on sale of properties	**2,928,281**	4,232,069
	5,166,617	6,173,325

FINANCIAL REVIEW

Financial resources and bank borrowings

The Group had total bank borrowings of HK$10,070 million as at 31 December 2016 (31 December 2015: HK$8,707 million), with HK$2,544 million being repayable within one year and HK$7,526 million being repayable after one year. Taking into account cash and cash equivalents of HK$795 million, the Group's net bank borrowings position was HK$9,275 million as at 31 December 2016 (31 December 2015: HK$7,531 million). As at 31 December 2016, total loans from the ultimate holding company and a fellow subsidiary amounted to HK$2,349 million (31 December 2015: HK$6,439 million).

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) reduced to 49.3% as at 31 December 2016 (31 December 2015: 61.0%).

In January 2016, the Group acquired a subsidiary holding a land located in Tseung Kwan O in Hong Kong from the ultimate holding company at a total consideration of HK$184 million. In January 2017, the Group accepted the terms of an offer from the government including the land premium for the proposed land exchange.

During the year, the Group continued to launch the sale of remaining units of property projects in Hong Kong, which contributed further cash inflows of exceeding HK$2 billion to the Group. Furthermore, the Group has recorded approximately HK$2.8 billion cash inflows mainly from sales/presales of various development projects in Mainland China.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$1,788 million for 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 considered appropriate.

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 31 December 2016, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

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

Capital commitments

As at 31 December 2016, the Group had commitments in connection with the Group's investment properties amounting to HK$30 million.

Pledge of assets

As at 31 December 2016, properties having a value of HK$18,679 million and bank deposits of HK$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

Contingent liabilities

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK$1,012 million, representing a 50% proportional guarantee in respect of HK$2,024 million term loan facilities. The facilities were utilised to the extent of HK$1,755 million as at 31 December 2016.

HUMAN RESOURCES

As of 31 December 2016, the Group had a total of 941 employees (2015: 890 employees), of which 539 were Hong Kong staff, 190 were Mainland China staff and 212 were staff in other regions. The increase in headcount was mainly to match business growth. During the year, total staff costs increased to HK$242 million (2015: HK$233 million) due to salary revisions in July 2016 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on the 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 various 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 2016 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 2016 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 2016 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:

<u>Code Provision A.2.1</u>

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. This combining of the roles enables the Company to make prompt and effective 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.

<u>Code Provision A.6.7</u>

All Non-executive Directors and Independent Non-executive Directors attended the Annual General Meeting of the Company held on 28 June 2016 (the "AGM"), other than an Independent Non-executive Director who was unable to attend the AGM as he was overseas at the time.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

2017 Annual General Meeting

The 2017 Annual General Meeting of the Company will be held on Wednesday, 7 June 2017. The Notice of 2017 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, 19 June 2017 to Tuesday, 20 June 2017, 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, 16 June 2017.

Publication of Annual Report

The Annual Report 2016 containing all the information as required by the Listing Rules will be published on the Company's website at www.kdc.com.hk and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about 28 April 2017.

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

Hong Kong, 22 March 2017

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