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 2017

HIGHLIGHTS

- For the year ended 31 December 2017, the Group's net profit attributable to shareholders of the Company amounted to HK$1,635 million compared to HK$947 million in 2016, an increase of 72.7%.
- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2017 rose to HK$1,525 million from HK$818 million in 2016, an increase of 86.4%. The underlying net earnings per share for 2017 were HK$1.31 compared to HK$0.71 in 2016.
- Full year dividend per share for 2017 amounts to HK$0.65, with a final dividend per share of HK$0.43.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2017, the Group's net profit attributable to shareholders of the Company amounted to HK$1,635 million compared to HK$947 million in 2016, an increase of 72.7%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2017 rose to HK$1,525 million from HK$818 million in 2016, an increase of 86.4%. The underlying net earnings per share for 2017 were HK$1.31 compared to HK$0.71 in 2016.

The significant improvement in the underlying net profit for 2017 was largely due to higher property sales being recognised, with completion of a number of the Group's commercial and residential development projects in Mainland China, Macau and Hong Kong.

The Board of Directors has recommended the payment of a final dividend of HK$0.43 per share (2016: HK$0.39) for the year ended 31 December 2017. Together with the 2017 interim dividend of HK$0.22 per share (2016: HK$0.21), the full year dividend for 2017 amounts to HK$0.65 per share (2016: HK$0.60).

The final dividend will be payable on Wednesday, 25 July 2018 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 10 July 2018, subject to the approval of shareholders at the 2018 Annual General Meeting (the "2018 AGM").

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, the government launched a new series of property restrictive measures in the middle of 2017 aiming to cool the seemingly overheating property market, which has been boosted by persistently low interest rates and record high transacted land prices. Despite these cooling measures, residential property prices still rose 16.5% for the full year of 2017.

In Mainland China, local governments continued to launch different restrictive measures on their respective property markets throughout 2017, including home-buying restrictions on the sale prices, the number of residential units each allowed to purchase, mortgage loans as well as stricter property transfer or re-selling requirements. As property prices had been rising rapidly in the first- and second-tier cities prior to 2017, the restrictive measures imposed on these cities were relatively tougher. As a result, transaction volumes generally fell in these top-tier cities during 2017 with some of these cities recording declines in residential property prices. On the other hand, as property prices had recorded no or only mild increases in those third- and fourth-tier cities prior to 2017, the property measures imposed were less restrictive. Consequently, transaction volumes generally rose considerably, with some of these third- and fourth-tier cities even recording increases in residential property prices in 2017.

In Macau, overall sentiment in the residential property market appeared to be favourable in 2017. Despite the Monetary Authority of Macau tightening mortgage lending in May 2017, the residential property prices showed no signs of slowdown, with the average price of residential units reaching record highs in the fourth quarter of 2017, up 16.8% year-on-year for the full year of 2017. As a result, the Macau government imposed additional property measures to further cool the residential property market in February 2018, with new measures likely suppressing the buyers' appetite and hence reducing overall property transaction volumes in the short term. However, in the meantime, the incentives provided by the Monetary Authority of Macau for the first-time home buyers between the age of 21 and 44 would likely encourage more home ownership of those young residents, partially offsetting adverse impacts from the imposed restrictive measures.

Development Property Sales

In Hong Kong, all remaining small number of residential units at South Coast and Upper West were sold as of end-December 2017. For the year under review, there was no major sales activity, except that in July 2017, the Group put a small number of residential units at 63 Pokfulam to the market for presale. Therefore, total presales/sales from its development projects amounted to only a total of approximately HK$940 million in 2017.

In Mainland China, total attributable presales/sales proceeds from all the Group's development projects amounted to approximately RMB2.1 billion (approximately HK$2.5 billion) in 2017.

In Macau, in respect of the La Marina development project, construction works were completed and the occupation permit was obtained in July 2017. The presold units have been gradually delivered to the buyers since late December of 2017. Up to end-December 2017, total sales amounted to over HK$5 billion.

With respect to the Pearl Horizon development project in Macau, as stated in the Company's annual reports, interim reports as well as various announcements during 2015 to 2017, Polytex Corporation Limited ("PCL"), the registered owner of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has applied to the Courts of Macau, including Court of Final Appeal of Macau, to claim for compensation of time in order to complete the development project. The Group is currently awaiting the decisions from the Courts of Macau. However, based on the opinion provided by our legal adviser in Macau, it was the Macau government who had delayed granting various requisite approvals and permits for the development project over the past years providing PCL with no sufficient time for the development to be completed before the expiry date of the land concession. Therefore, based on the above grounds, PCL would have a right to pursue a claim for compensation of time or damages from the Macau government. In addition to the legal route being taken, other possible approaches have also been actively explored, with a view to best protecting the Group's as well as the buyers' interests.

Property Development

In Hong Kong, all formalities of the land exchange for Tseung Kwan O Town Lot No. 121 located in Area 85, Tseung Kwan O, Sai Kung, New Territories were completed on 18 April 2017 and the site is now wholly-owned by the Group, adding approximately 48,200 sq m gross floor area ("GFA") to its readily developable residential landbank.

As announced on 22 June 2017, the Company entered into two sale and purchase agreements with Greatpath Group Limited and Max Great Investments Limited to acquire the equity interests of 20% together with the assignment of shareholders' loans in Ideaplan Investments Limited for the aggregate considerations of approximately HK$219 million, with the consideration payable to the vendors being satisfied by allotting and issuing 25,950,021 shares of the Company in total at HK$8.44 per share upon completion. Both transactions were successfully completed in July 2017 and the Group now wholly owns the development project located in the Chong An District, a central business district of Wuxi, Mainland China, with GFA of approximately 400,000 sq m.

As of 31 December 2017, the Group's landbank for development amounted to approximately 4.3 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%	Fitting-out works in progress	2018
63 Pokfulam	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,200	-	100%	Foundation works completed and superstructure works in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	-	100%	Temporary Occupation Permit obtained for 150 public car parking spaces and commenced to operate; construction works for the remaining areas in progress	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	-	100%	Advance building works in progress	2021
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	-	100%	Land premium negotiation in progress	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. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	286,600	100%	Construction works 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	385,900	100%	Construction works for the third phase A in progress	Third phase A 2019
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）#	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	82,500	60%	Construction works 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	745,500	50%	Construction works for high-rise residential towers in the fourth phase of development completed	Remaining development to be determined
Le Cove City (Wuxi) 江灣城（無錫）	Chong An District, Wuxi	Residential & commercial	68,833	400,000	97,400	100%	Construction works for the second phase completed	Third phase to be determined
City Plaza (Tianjin) 城市廣場（天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	237,700	49%	Construction works for residential flats in the second phase of development completed	Third phase to be determined
Macau								
Pearl Horizon#	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	-	58.8%	Suspended	To be determined

Note: A property project in Macau, namely La Marina#, was completed during the year under review.

※ Approx. total GFA booked and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.
\# The development of these projects is under the co-investment agreements with the ultimate holding company and its wholly-owned subsidiaries.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2017 rose to HK$356 million, an increase of 4.4% over 2016. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose 5.2% to HK$305 million in 2017. The overall occupancy rate for the Group's property investment portfolio remained high exceeding 98% as of 31 December 2017.

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

The Group's exposures to 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. Their respective operational results are as follows:

Property Investment in Macau
The Group's share of gross rental income generated from its investment properties rose to HK$64 million in 2017, representing an increase of 10% over 2016. 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$59 million in 2017 from HK$54 million in 2016.

Oil
The oil segment recorded a loss after tax of HK$312 million in 2017 compared to HK$33 million in 2016. The considerable loss for the year under review was mainly due to an impairment provision for the Group's oil production and exploitation assets in Kazakhstan, amounting to a total of HK$290 million with the change in its related tax being included. Management considers the above provisions are well justified and based on its prudent approach. The net book value of the oil assets in Kazakhstan, together with its related deferred tax asset, was approximately HK$380 million as of 31 December 2017 following such impairment provisions, representing only 1.3% of the Group's total net asset value.

Ice Manufacturing and Cold Storage
Total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$29 million in 2017, a decrease of 15% over 2016. While segment revenue remained stable for the year under review, the decrease in operating profit was attributable to the increase in non-recurring expenses relating to replacement and maintenance of machinery.

PROSPECTS

In Hong Kong, overall land prices continued to rise rapidly in 2017, with transacted prices reaching new record highs. In view of improving market sentiment boosted by record high land prices, the Group actively re-launched the presale of 63 Pokfulam, its wholly-owned high-end residential development project, and it has been well received by the market, with over 60% of residential units being sold up to March 2018. The presale of the development project in Lei Yue Mun is expected to launch in the third or fourth quarter of this year when all the necessary presale requirements are fulfiled. Construction works of Upper East are expected to be completed in the middle of this year and those sold residential units will then be delivered to the buyers in the third or fourth quarter of 2018.

In Mainland China, there may have some good opportunities to replenish the Group's landbank later this year as financial institutions are expected to tighten their credit to the property sector. The Group would closely monitor the development in the land markets of its targeted regions capturing the best opportunities to replenish its landbank. The presale of various development projects in Shenyang and Huizhou has been satisfactory and their respective sales are expected to be recognised in 2018.

In Macau, in respect of the La Marina development project, which is favourably located in a prime area adjacent to the Hong Kong-Zhuhai-Macau Bridge with a saleable GFA exceeding 174,000 sq m for the residential portion, approximately one-thirds of residential units were sold as at end-December 2017, with total sales proceeds exceeding HK$5 billion. The remaining residential units will be put on the market for sale by phases and income to be received from La Marina is still expected to contribute to the Group's earnings in 2018.

With respect to the Pearl Horizon development project in Macau, in addition to taking the legal route to best protect the Group's as well as the buyers' interests, it also has been actively exploring other possible approaches, aiming to resolve this standoff as expeditiously as possible.

In regard to its oil segment, the Group will continue to assess the sustainability of the recovery in oil prices, with further provisions for asset impairment to be made in 2018 if necessary.

Both of the Group's investment property portfolio in Macau and ice manufacturing and cold storage business in Hong Kong are expected to continue to generate stable income in 2018.

As the Group has been pursuing a property development strategy in Hong Kong, Mainland and Macau for years, it has established a solid foundation for its property business in these markets, being currently well positioned with a competitive landbank. This development strategy has worked well for the Group so far as the timing for good opportunities to replenish its landbank coming to sight varies with different markets and it would assess the differences in land prices of the three markets and choose the best market to invest, enhancing its competitive position. This year, as the land prices have reached historic high levels in Hong Kong, the Group will then seek out investment opportunities elsewhere in Mainland China to replenish its landbank.

The Group is facing challenges in all three markets to which it has exposure, with anticipation of continued property restrictive measures, as well as rising interest rates, from Hong Kong, Mainland China and Macau to adversely impact on its overall property sales activity and hence possibly transaction volumes and price increases. However, with continued efforts from the Board and all staff, the Group's overall business continues to grow and advance and its results for 2018 are expected to be satisfactory, barring unforeseen circumstances.

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 2017 together with the comparative figures of 2016 are as follows:

Consolidated Income Statement

for the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 *HK$'000*
Revenue	*3*	**3,120,369**	6,777,949
Cost of sales		**(1,729,663)**	(5,249,338)
Other revenue		**28,265**	23,095
Other net expenses	*4*	**(363,807)**	(274,416)
Depreciation and amortisation		**(16,196)**	(17,057)
Staff costs		**(224,338)**	(201,918)
Selling, marketing and distribution expenses		**(183,853)**	(306,349)
Impairment of oil production and exploitation assets	*5*	**(226,500)**	–
Other operating expenses		**(64,919)**	(70,779)
Fair value changes on investment properties		**106,797**	114,908
Profit from operations		**446,155**	796,095
Finance costs	*6*	**(119,698)**	(126,479)
Share of profits of associated companies		**1,294,005**	145,891
Share of profits of joint ventures		**178,330**	186,716
Profit before taxation	*7*	**1,798,792**	1,002,223
Income tax	*8*	**(79,891)**	(47,201)
Profit for the year		**1,718,901**	955,022
Attributable to :			
Shareholders of the Company		**1,635,026**	946,737
Non-controlling interests		**83,875**	8,285
Profit for the year		**1,718,901**	955,022
Earnings per share – Basic/Diluted	*9*	**HK$1.41**	HK$0.82

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**1,718,901**	955,022
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	**222,378**	(294,356)
Changes in fair value of interests in property development	**130,365**	1,274,011
Transfer to income statement upon recognition of distribution from interests in property development	**(555,793)**	–
Share of other comprehensive income of joint ventures and associated companies	**208,471**	(268,806)
	5,421	710,849
Total comprehensive income for the year	**1,724,322**	1,665,871
Attributable to :		
Shareholders of the Company	**1,740,148**	1,352,938
Non-controlling interests	**(15,826)**	312,933
Total comprehensive income for the year	**1,724,322**	1,665,871

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017		2016	
		HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets					
Investment properties			**10,313,500**		11,600,514
Property, plant and equipment	*5*		**541,625**		780,012
Oil exploitation assets	*5*		**28,175**		48,156
Interests in property development	*11*		**12,399,437**		13,388,882
Interest in joint ventures			**3,338,920**		3,121,235
Interest in associated companies			**1,824,171**		1,796,371
Loans and advances	*12*		**978,265**		871,855
Deferred tax assets			**122,010**		176,058
			29,546,103		31,783,083
Current assets					
Inventories		**14,440,005**		12,083,996	
Interests in property development	*11*	**1,264,017**		–	
Trade and other receivables	*12*	**1,072,018**		1,884,405	
Loans and advances	*12*	**26,171**		24,816	
Amount due from fellow subsidiaries		**665,161**		–	
Amount due from a joint venture		**88,651**		72,452	
Pledged bank deposit		**15,000**		15,000	
Cash and bank balances		**1,969,391**		795,400	
		19,540,414		14,876,069	

		2017		2016	
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
Current liabilities					
Trade and other payables	*13*	**4,796,620**		5,166,617	
Amounts due to non-controlling interests		**–**		200,000	
Amount due to a joint venture		**743,500**		694,793	
Loan from an associated company		**39,582**		35,781	
Bank loans		**7,316,136**		2,544,200	
Current taxation		**174,087**		169,175	
		13,069,925		8,810,566	
Net current assets			**6,470,489**		6,065,503
Total assets less current liabilities			**36,016,592**		37,848,586
Non-current liabilities					
Loan from ultimate holding company		**619,526**		1,534,546	
Loan from a fellow subsidiary		**–**		814,056	
Bank loans		**6,344,000**		7,525,853	
Other payables		**18,615**		21,409	
Deferred tax liabilities		**737,483**		861,838	
			7,719,624		10,757,702
NET ASSETS			**28,296,968**		27,090,884
Capital and reserves					
Share capital			**8,636,490**		8,417,472
Reserves			**16,269,193**		15,162,221
Total equity attributable to the shareholders of the Company			**24,905,683**		23,579,693
Non-controlling interests			**3,391,285**		3,511,191
TOTAL EQUITY			**28,296,968**		27,090,884

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 ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. 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 2017 and 2016 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 2016 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 2017 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 several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

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 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, income from interests in property development 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.

	2017						
		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	**3,120,369**	**587,266**	**1,420,333**	**500,000**	**356,323**	**61,930**	**194,517**
Reportable segment profit	**2,251,078**	**32,743**	**1,473,150**	**505,213**	**405,880**	**(246,321)**	**80,413**
Other net expenses	**(363,807)**	**–**	**(364,900)**	**–**	**1,093**	**–**	**–**
Fair value changes on investment properties	**106,797**	**–**	**–**	**–**	**106,797**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**36,080**	**–**	**–**	**–**	**36,080**	**–**	**–**
Head office and corporate expenses	**(111,658)**						
Finance costs	**(119,698)**						
Profit before taxation	**1,798,792**						
Share of profits of associated companies	**1,294,005**	**–**	**1,290,752**	**–**	**–**	**–**	**3,253**
Share of profits of joint ventures	**178,330**	**–**	**72,168**	**–**	**106,162**	**–**	**–**
Interest income	**57,499**	**–**	**–**	**–**	**–**	**–**	**57,499**
Write down of inventories	**(364,900)**	**–**	**(364,900)**	**–**	**–**	**–**	**–**
Impairment of oil production and exploitation assets	**(226,500)**	**–**	**–**	**–**	**–**	**(226,500)**	**–**
Depreciation and amortisation	**(34,037)**	**–**	**–**	**–**	**–**	**(17,933)**	**(16,104)**

During the year ended 31 December 2017, the Group had recognised distributions from interests in property development in Macau and Mainland China with a total amount of HK$555,793,000 under the property development segment, which exceeded 10% of the Group's revenue.

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results and assets (continued)

	2016						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
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)

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results and assets (continued)

	2017						
		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	**46,684,093**	**8,625,949**	**12,170,197**	**12,418,198**	**11,807,987**	**366,591**	**1,295,171**
Deferred tax assets	**122,010**						
Pledged bank deposit	**15,000**						
Cash and bank balances	**1,969,391**						
Head office and corporate assets	**296,023**						
Consolidated total assets	**49,086,517**						
Interest in associated companies	**1,824,171**	**–**	**1,791,755**	**–**	**–**	**–**	**32,416**
Interest in and amounts due from joint ventures	**3,427,571**	**–**	**1,954,226**	**–**	**1,473,345**	**–**	**–**

	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	115,957						
Consolidated total assets	46,659,152						
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	–	–

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**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**1,114,026**	2,958,371	**10,575,032**	10,450,586
Mainland China	**1,444,413**	3,742,201	**3,660,437**	4,880,498
Macau	**500,000**	–	**1,473,345**	1,433,396
Kazakhstan	**61,930**	77,377	**337,577**	581,808
	3,120,369	6,777,949	**16,046,391**	17,346,288

In addition to the above non-current assets, the Group has interests in property development of HK$10,586,970,000 (2016: HK$12,060,840,000) and HK$1,812,467,000 (2016: HK$1,328,042,000) in Macau and Mainland China respectively.

4 OTHER NET EXPENSES

Other net expenses mainly represent the write down of inventories of HK$364,900,000 (2016: HK$276,000,000).

5 OIL PRODUCTION AND EXPLOITATION ASSETS

As at 31 December 2017, the Group had oil production assets of HK$309,402,000 (2016: HK$533,652,000) (included in property, plant and equipment) and oil exploitation assets of HK$28,175,000 (2016: HK$48,156,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

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 31 December 2018. 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 2018 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.

The Group engaged an independent appraisal company to conduct an oil reserve assessment of the Group's Oilfield in Kazakhstan as at 31 December 2017. According to the latest oil reserve assessment report, it was shown that the 2P oil reserves of the Oilfield dropped by approximately 42% which was mainly due to the significant decline in crude oil prices in recent years and the corresponding adjustment in the operating strategy adopted by the Group to reduce the capital expenditure. Therefore, as at 31 December 2017, management reassessed the operation and the risk exposures of the Group’s oil exploration and production business as a whole and estimated that the carrying values of the oil production and exploitation assets exceeded their estimated recoverable amounts by HK$226,500,000. Accordingly, impairment for oil production assets and oil exploitation assets amounting to HK$207,474,000 and HK$19,026,000 respectively, was recognised as a separate line item in the Group’s consolidated income statement. In 2016, the estimated recoverable amounts of oil production and exploitation assets exceeded their carrying values, therefore, no further impairment was considered necessary for the year ended 31 December 2016. The recoverable amounts of oil production and exploitation assets, amounting to HK$309,402,000 and HK$28,175,000 respectively, were determined based on value in use calculations applying a discount rate of 12.5% (2016: 12.5%).

6 FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans	**200,147**	142,303
Interest on loan from ultimate holding company and a fellow subsidiary	**13,189**	72,226
Less : Amount capitalised	**(93,638)**	(88,050)
	119,698	126,479

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging :

	2017	2016
	HK$'000	*HK$'000*
Amortisation of oil exploitation assets *(Remark)*	**955**	1,169
Depreciation and amortisation of property, plant and equipment *(Remark)*	**33,082**	49,112
Staff costs *(Remark)*	**245,378**	229,925
Total staff costs	**271,500**	241,841
Less: Amount capitalised	**(26,122)**	(11,916)

Remark :
Cost of sales includes HK$22,410,000 (2016: HK$39,220,000) 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

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Provision for profits tax		
– Hong Kong	**75,360**	117,363
– Outside Hong Kong	**75,304**	31,397
	150,664	148,760
Land appreciation tax ("LAT")	**13,053**	11,556
Deferred tax	**(83,826)**	(113,115)
	79,891	47,201

The provision for Hong Kong profits tax is calculated at 16.5% (2016: 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$1,635,026,000 (2016: HK$946,737,000) and the weighted average number of ordinary shares in issue during the year of 1,162,483,202 (2016: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2017 and 2016.

10 DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK$0.22 (2016: HK$0.21) per share	**258,859**	241,643
Final dividend proposed after the end of the reporting period of HK$0.43 (2016: HK$0.39) per share	**505,951**	448,766
	764,810	690,409

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 represent the Group's interests in the development of various properties located in Macau and Mainland China under co-investment agreements with the ultimate holding company and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the property development projects which is subject to an aggregate maximum amount. In return, the ultimate holding company and its two wholly owned subsidiaries will pay to the Group cash flows from the property 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 and 30 October 2013. Interests in property development are stated at fair value at the end of the reporting period.

During the year, pursuant to the co-investment agreements, distributions of HK$55,793,000 and HK$500,000,000 were made by the ultimate holding company and one of its wholly owned subsidiaries, in relation to the property development projects at Huizhou and Lotes T+T1 respectively. Income from interests in property development recognised in income statement from the distributions during the year amounted to HK$555,793,000 (2016: Nil).

As at 31 December 2017, out of the interests in property development, an amount of HK$1,264,017,000 was expected to be recoverable within one year and was classified as current assets.

11 INTERESTS IN PROPERTY DEVELOPMENT (CONTINUED)

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.

On 19 October 2017, the Tribunal de Segunda Instancia (中級法院) of the Macau SAR rejected the application by PCL for invalidating the decision made by the Chief Executive of the Macau SAR to terminate the land concession of the project. According to the legal opinion obtained by the Group, PCL has sufficient grounds to further appeal (the "Final Appeal") to the Tribunal de Ultima Instancia (終審法院) of the Macau SAR, and the Court of the Macau SAR should consider and assess the essential points regarding the delay caused by the Macau SAR Government and the right of PCL to claim for an extension of time to complete the construction work of the project and deliver the properties to the respective purchasers. An application for the Final Appeal has been made by PCL pending the decision made by the Tribunal de Ultima Instancia.

With respect to the principal application by PCL to the Tribunal Administrativo (行政法院) requesting compensation of time (by way of extension of the land concession) for the project, it is being suspended pending the decision of the Final Appeal.

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 and the terms as stated in the co-investment agreement, 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 judgement 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 judgement 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 2017.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained on 3 July 2017 which was before the expiry date of its land concession on 5 July 2017. The pre-sold residential units have been gradually delivered to the purchasers since late December of 2017, and the unsold residential units will be put on the market for sale in phases.

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 :

	2017	2016
	HK$'000	*HK$'000*
Current	**1,651,015**	2,300,082
Within 3 months	**15,118**	16,648
3 months to 6 months	**770**	350
More than 6 months	**15,221**	14,034
Trade receivables and loans and advances	**1,682,124**	2,331,114
Utility and other deposits	**23,463**	42,875
Prepaid tax	**104,224**	86,907
Other receivables and prepayments	**266,643**	320,180
	2,076,454	2,781,076

The Group maintains a defined credit policy. An ageing analysis of trade receivables and loans and advance 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 :

	2017	2016
	HK$'000	*HK$'000*
Not yet due or on demand	**1,547,182**	1,692,225
Within 3 months	**3,061**	7,422
3 months to 6 months	**1**	18
More than 6 months	**3**	3
Trade payables	**1,550,247**	1,699,668
Rental and other deposits	**76,467**	74,824
Other payables and accrued expenses	**300,626**	463,844
Deposits received on sale of properties	**2,869,280**	2,928,281
	4,796,620	5,166,617

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$13,660 million as at 31 December 2017 (31 December 2016: HK$10,070 million), comprising of HK$7,316 million repayable within one year and HK$6,344 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,969 million, the Group's net bank borrowings position was HK$11,691 million as at 31 December 2017. Loan from the ultimate holding company amounted to HK$620 million as at 31 December 2017.

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from the ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) was 49.4% as at 31 December 2017 (31 December 2016: 49.3%).

During the year, sales/presales for the property projects in Hong Kong contributed cash inflows of HK$1,290 million to the Group. Furthermore, the Group has recorded approximately of HK$1,018 million cash inflows mainly from sales/presales of various development projects in Mainland China.

In April 2017, the Group has successfully completed the land exchange for a residential project located in Tseung Kwan O, Hong Kong, which was acquired from the ultimate holding company in early 2016.

During the year, distributions of HK$556 million were made by the ultimately holding company and one of its wholly owned subsidiaries in relation to the development projects at Huizhou and Lotes T+T1 to the Group, pursuant to the co-investment agreements.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$1,738 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 2017, 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 2017, the Group had commitments in connection with the Group's investment properties amounting to HK$25 million.

Pledge of assets

As at 31 December 2017, properties having a value of HK$21,000 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$1,131 million, representing a 50% proportional guarantee in respect of HK$2,261 million term loan facilities. The facilities were utilised to the extent of HK$1,077 million as at 31 December 2017.

HUMAN RESOURCES

As of 31 December 2017, the Group had a total of 864 employees (2016: 941 employees), of which 568 were Hong Kong staff, 162 were Mainland China staff and 134 were staff in other regions. During the year, total staff costs increased to HK$272 million (2016: HK$242 million) due to salary revisions in July 2017. 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 a Christmas party with lucky draws conducted for employees during the year to promote team spirit and loyalty and encourage 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 2017 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 2017 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 2017 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 on 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 7 June 2017 (the "2017 AGM"), other than an Independent Non-executive Director who was unable to attend the 2017 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 2017.

2018 AGM

The 2018 AGM of the Company will be held on Wednesday, 27 June 2018. The Notice of the 2018 AGM will be published and dispatched in due course.

Closure of Register of Members

For the purpose of determining shareholders' eligibility to attend and vote at the 2018 AGM, the Register of Members of the Company will be closed from Friday, 22 June 2018 to Wednesday, 27 June 2018, both dates inclusive. During which period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, 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 Thursday, 21 June 2018.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Monday, 9 July 2018 to Tuesday, 10 July 2018, 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 the abovementioned address for registration not later than 4:30 pm on Friday, 6 July 2018.

Publication of Annual Report

The Annual Report 2017 containing all the information as required by the Listing Rules will be published on the Company's website at www.kdc.com.hk and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about 27 April 2018.

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

Hong Kong, 27 March 2018

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.