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九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- For the year ended 31 December 2019, the Group's net profit attributable to shareholders of the Company amounted to HK\$2,450 million compared to HK\$2,193 million in 2018, an increase of 11.7%.
- Excluding revaluation from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2019 rose to HK\$2,600 million from HK\$1,711 million in 2018, an increase of 52.0%. The underlying net earnings per share for 2019 were HK\$2.21 compared to HK\$1.45 in 2018.
- Final dividend of HK\$0.54 per share is proposed. Full year dividend for 2019 amounts to HK\$0.78 per share.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2019, the Group's net profit attributable to shareholders of the Company amounted to HK\$2,450 million compared to HK\$2,193 million in 2018, an increase of 11.7%. Excluding revaluation from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2019 rose to HK\$2,600 million from HK\$1,711 million in 2018, an increase of 52.0%. The underlying net earnings per share for 2019 were HK\$2.21 compared to HK\$1.45 in 2018.

The Board of Directors has recommended the payment of a final dividend of HK\$0.54 (2018: HK\$0.50) per share for the year ended 31 December 2019. Together with the 2019 interim dividend of HK\$0.24 (2018: HK\$0.22) per share, the full year dividend for 2019 amounts to HK\$0.78 (2018: HK\$0.72) per share.

The final dividend will be payable on Monday, 29 June 2020 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18 June 2020, subject to the approval of shareholders at the 2020 Annual General Meeting (the "2020 AGM").

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, the US-China trade dispute and social movement events have had adverse impacts on the economy. Therefore, more people started taking a wait-and-see approach in the middle of 2019, with overall residential prices reversing its upward trend and the total transaction volumes also recording considerable declines in the second half of 2019.

In Mainland China, the nationwide's overall residential property prices inflation remained stable in 2019. However, the performance varied across cities, with the prices rising in the cities with strong demand and declining in the cities with weak demand.

In Macau, the overall residential prices remained relatively stable in 2019 while the total transaction volumes fell considerably compared with that of 2018.

Development Property Sales

In Hong Kong, the Group's two wholly-owned residential development projects in Hung Hom and Lei Yue Mun, namely Upper East and One East Coast, respectively were completed and delivered to buyers during 2019. Almost all residential units at Upper East and around 90% of residential units at One East Coast were sold as of 31 December 2019, with sale proceeds from the respective development projects being recognised for the year under review.

In Mainland China, there was only a small portion of sales being recognised for the year under review.

In Macau, the Group received satisfactory income distributions for its interest in the La Marina development project for the year ended 31 December 2019.

Property Development

As of 31 December 2019, the Group's landbank for development amounted to approximately 3.5 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								
63 Pokfulam [®]	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,190	—	100%	Applied for issuance of Occupation Permit	First quarter 2020
Tseung Kwan O	Tseung Kwan O, New Territories	Residential	9,635	48,200	—	100%	Superstructure works in progress	End-2021/ Early-2022
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	364,899	100%	Planning works for Phase 5 in progress	Phase 5 2023
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	544,814	100%	Modification for subsequent development plan in progress; construction works for Phase 3A (South Block) to commence soon	Phase 3A (South Block) 2021/2022
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州) #	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	244,598	60%	Construction works for Phase 2 in progress	Phase 2 2021; Phase 3 2023
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	849,051	50%	Planning application for Phase 3 development approved and construction works just commenced	Phase 3 2022
Le Cove City (Wuxi) 江灣城 (無錫)	Chong An District, Wuxi	Residential & commercial	68,833	365,000	110,510	100%	Foundation works for Phase 3 and Phase 4 in progress	Phase 3 and Phase 4 2023
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000	239,873	49%	Planning for Phase 3B approved and construction works to commence soon	Phase 3A 2023; Phase 3B to be determined
Shanghai (Shanghai)	Yangpu District, Shanghai	Residential & commercial	21,427	113,600 ²	—	100%	Site clearance in progress	2023/2024
Zhongshan (Zhongshan)	South District, Zhongshan	Residential & commercial	234,802	587,000	—	35.4%	Site clearance completed; application works for building plan and relevant construction approvals in progress	2021 – 2025

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 (continued)								
Zhuhai (Zhuhai) [*]	Xiangzhou District, Zhuhai	Commercial office	43,656	179,000	—	—	—	—

* Approx. total GFA booked and recognised in the financial statements.

Ⓜ Obtained the Occupation Permit on 6 February 2020.

The development of this project is under the co-investment agreement with Polytec Holdings International Limited.

△ Including underground GFA of approximately 39,035 sq m.

☆ As announced on 6 January 2020, the acquisition of this project was terminated as one of the conditions precedent to the sale and purchase agreement was not satisfied.

Note: A property project in Hong Kong, namely One East Coast, was completed during the year under review.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for 2019 rose slightly to HK\$357 million from HK\$350 million in 2018, an increase of 2%. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, for 2019 rose slightly to HK\$306 million from HK\$303 million, an increase of 1% over 2018. Overall occupancy rate for the Group's property investment portfolio remained high at over 95% as of 31 December 2019.

Other Businesses through Polytec Asset Holdings Limited ("Polytec Asset"), a 70.8%-owned listed subsidiary of the Company

The Group's exposures to the property investment in Macau, the oil business, the ice manufacturing and cold storage business and the financial investment business are through Polytec Asset. Their respective operational results are as follows:

■ **Property Investment in Macau**

For the year ended 31 December 2019, Polytec Asset's share of gross rental income generated from the joint venture's investment properties rose to approximately HK\$84 million, an increase of 2.4% over 2018. The rental income was mainly generated from The Macau Square, Polytec Asset's 50%-owned investment property, with its share of total rental income of the property rising by HK\$1 million to approximately HK\$77 million in 2019.

■ **Oil**

The oil segment recorded a loss after tax of HK\$285 million for the year ended 31 December 2019 compared to a loss of HK\$15.9 million in 2018. The increase in the loss was mainly due to an impairment loss of HK\$270 million made for Polytec Asset's oil production and exploitation assets in Kazakhstan (with the change in its related tax being included) for the year under review. Management is of the view that the above impairment is based on the assessment of the prevailing oil market and its development plan.

■ Ice Manufacturing and Cold Storage

Total operating profit for the combined ice manufacturing and cold storage segment amounted to HK\$25.2 million in 2019, a decrease of 1% over 2018 due to weakening demand.

■ Financial Investment

Polytec Asset commenced its engagement in financial investment activities in August 2019, with total net income of HK\$7.6 million from its fixed-income (bonds) and equity (blue-chip stocks) investments being recorded for the year ended 31 December 2019.

PROSPECTS

The economic outlook for Hong Kong started to deteriorate at the beginning of 2020, with people generally showing less enthusiasm on home purchases. As a result, the residential transaction volumes recorded a considerable decline in the first two months of 2020. The Group has obtained the Occupation Permit for 63 Pokfulam, its major development project in Pok Fu Lam Road, and so far over 95% of residential units have been presold. The handover of the presold units at 63 Pokfulam to buyers is expected to start in the middle of 2020 and its related sale proceeds will be recognised during 2020. The foundation works for the Group's another major development project in Tseung Kwan O were completed and the superstructure works have been commenced. The Group intends to develop this site into two high-rise residential towers with over 1,500 residential units, covering a total gross floor area of approximately 48,000 sq m. The project completion and the obtaining of Occupation Permit are expected at the end of 2021. In addition, rental income from the Group's investment properties in Hong Kong is expected to be adversely affected by the coronavirus pandemic.

In Mainland China, the relocation works of the Group's Shanghai redevelopment project were completed and the demolishing works and overall planning are in progress. There would be only a small portion of sale proceeds from the Group's development projects to be recognised in 2020 and therefore the contribution to the Group's results would be limited.

The outlook for the major development projects and businesses through Polytec Asset, a 70.8%-owned listed subsidiary of the Company, is set out below:

- The basic infrastructure works for the Zhongshan property development project have been commenced. The overall planning and design for the project by a professional design house is well underway.
- In anticipation of deteriorating global economic prospects, the Brent crude oil price has recently plummeted. If the Brent oil price does not rebound significantly, Polytec Asset will have to fully write off its oil assets in Kazakhstan in 2020 and will consider closing down the business. The current net book value of the oil assets is approximately HK\$66.7 million, representing only less than 0.5% of Polytec Asset's net asset value and hence the impact of the write-off would be insignificant.
- Polytec Asset's rental income from the investment properties in Macau and its ice manufacturing and cold storage business in Hong Kong are also expected to be adversely affected by the coronavirus.

- La Marina, Polytec Asset's important development project in Macau, was still well received by the market and the sales of its residential units for the year under review remained satisfactory due to its excellent quality and design. The income to be received from Polytec Asset's interest in this development project is expected to make a certain contribution to the Group's results in the coming one to two years.

As the Group has endeavoured to deliver best quality products to its buyers for years, its relentless efforts have recently been recognised by the market again, with Phase 2 of Le Cove Garden in Guangdong, Huizhou being awarded "Certificate of Green Building Design Label" from Huizhou Green Building and Energy Conservation Association in January 2020. Indeed, Upper East, the Group's newly completed development project in Hung Hom, Hong Kong, was being awarded "Certificate of Five Stars Residency for the Year 2019" in June 2019 by the Hong Kong Professional Building Inspection Academy as stated in the Company's Interim Report for 2019.

Looking ahead to the rest of 2020, the Greater China region and the rest of the world by turns have been hit hard by the outbreak of the coronavirus, with unprecedented suspension of some economic activities across countries and also having caused extraordinarily high volatility in the global financial markets. This has significantly disrupted normal economic growth around the world and the impacts of the outbreak on the world economic prospects are expected to be severe, with the unemployment rates across countries likely rising considerably. It will definitely pose further challenge to the Group. However, the Group will continue to explore investment opportunities in the Greater China region aiming to create favourable conditions for sustainable growth for the Group. In addition, the Group intends to start engaging in financial investment activities at an appropriate time and will focus on fixed income investments, allowing more flexibility in utilising its existing resources and by taking prudent approach, providing diversified sources of income to the Group.

I would like to express my sincere gratitude to my fellow Directors for their strong support, and to all of our staff for their dedication to serving the Group.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures of 2018 are as follows:

Consolidated Income Statement for the year ended 31 December 2019

	<i>Note</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	11,623,523	2,842,434
Cost of sales		(6,584,074)	(422,160)
Other revenue		50,894	33,605
Other net (expenses)/income	4	(348,896)	987
Depreciation and amortisation		(26,037)	(15,417)
Staff costs		(355,360)	(217,482)
Selling, marketing and distribution expenses		(530,643)	(148,729)
Impairment of oil production and exploitation assets	5	(231,573)	-
Other operating expenses		(84,717)	(74,857)
Fair value changes on investment properties		(299,047)	360,389
Fair value changes on interests in property development		215,569	174,500
Profit from operations		3,429,639	2,533,270
Finance costs	6	(290,496)	(210,544)
Share of profits of associated companies		10,203	57,552
Share of profits of joint ventures		23,434	343,627
Profit before taxation	7	3,172,780	2,723,905
Income tax	8	(510,804)	(72,033)
Profit for the year		<u>2,661,976</u>	<u>2,651,872</u>
Attributable to:			
Shareholders of the Company		2,449,733	2,193,309
Non-controlling interests		212,243	458,563
Profit for the year		<u>2,661,976</u>	<u>2,651,872</u>
Earnings per share – Basic and diluted	9	<u>HK\$2.08</u>	<u>HK\$1.86</u>

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year	<u>2,661,976</u>	<u>2,651,872</u>
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(93,274)	(161,100)
Share of other comprehensive income of joint ventures and associated companies	<u>(103,546)</u>	<u>(165,518)</u>
	<u>(196,820)</u>	<u>(326,618)</u>
Total comprehensive income for the year	<u><u>2,465,156</u></u>	<u><u>2,325,254</u></u>
Attributable to:		
Shareholders of the Company	2,262,724	1,867,966
Non-controlling interests	<u>202,432</u>	<u>457,288</u>
Total comprehensive income for the year	<u><u>2,465,156</u></u>	<u><u>2,325,254</u></u>

Consolidated Statement of Financial Position

At 31 December 2019

		2019		2018	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Investment properties			10,424,950		10,607,850
Property, plant and equipment	5		564,528		767,118
Oil exploitation assets	5		6,001		27,516
Interests in property development	11		12,606,030		12,966,296
Interest in joint ventures			4,621,186		4,533,371
Interest in associated companies			1,506,604		1,680,459
Other financial assets			161,050		-
Trade and other receivables	12		98,280		-
Loans and advances	12		484,891		818,470
Deferred tax assets			53,523		125,794
			30,527,043		31,526,874
Current assets					
Inventories			14,757,745		20,015,325
Interests in property development	11		1,447,493		871,658
Trade and other receivables	12		1,277,302		1,130,952
Loans and advances	12		16,220		25,014
Other financial assets			15,418		-
Amounts due from related companies			500,000		1,480,000
Amounts due from joint ventures			316,005		301,926
Pledged bank deposits			15,000		1,042,161
Cash and bank balances			3,259,366		1,068,348
			21,604,549		25,935,384

Consolidated Statement of Financial Position (continued)
At 31 December 2019

		2019		2018	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	13	4,059,060		6,401,167	
Amount due to a joint venture		470,542		709,312	
Loan from an associated company		44,229		45,218	
Bank loans		1,526,686		6,825,941	
Current taxation		683,910		176,819	
		<u>6,784,427</u>		<u>14,158,457</u>	
Net current assets			<u>14,820,122</u>		<u>11,776,927</u>
Total assets less current liabilities			45,347,165		43,303,801
Non-current liabilities					
Loans from related companies		3,972,379		4,274,519	
Bank loans		9,433,422		8,455,488	
Other payables		17,688		17,450	
Deferred tax liabilities		602,328		730,970	
			<u>14,025,817</u>		<u>13,478,427</u>
NET ASSETS			<u>31,321,348</u>		<u>29,825,374</u>
Capital and reserves					
Share capital			8,636,490		8,636,490
Reserves			<u>18,431,717</u>		<u>17,039,701</u>
Total equity attributable to the shareholders of the Company			27,068,207		25,676,191
Non-controlling interests			<u>4,253,141</u>		<u>4,149,183</u>
TOTAL EQUITY			<u>31,321,348</u>		<u>29,825,374</u>

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 2019 and 2018 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 2018 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 2019 in due course. The auditor has reported on those financial statements for both years. The reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

2 Changes in accounting policies

The HKICPA has issued a new HKFRS 16, “Leases”, and 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.

HKFRS 16, “Leases”

HKFRS 16 replaces HKAS 17, “Leases”, and the related interpretations, HK(IFRIC) 4, “Determining whether an arrangement contains a lease”, HK(SIC) 15, “Operating leases – incentives”, and HK(SIC) 27, “Evaluating the substance of transactions involving the legal form of a lease”.

The key changes to the Group’s accounting policies resulting from the adoption of HKFRS 16 are summarised below.

2 Changes in accounting policies (continued)

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases under HKAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under HKFRS 16, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

The Group decided to apply recognition exemptions to short-term leases that have a lease term of 12 months or less and leases of low-value assets. For leases of other assets, the Group recognised right-of-use assets and lease liabilities.

As a lessor

HKFRS 16 does not substantially change how a lessor accounts for leases under HKAS 17.

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, 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 by excluding fair value changes on interests in property development and 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.

	2019						
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Revenue	11,623,523	8,273,300	1,805,499	724,500	357,486	61,539	401,199
Reportable segment profit	4,015,195	2,930,848	60,289	729,053	402,252	(257,459)	150,212
Other net expenses	(348,896)	-	(348,979)	-	300	-	(217)
Fair value changes on investment properties	(299,047)	-	-	-	(299,047)	-	-
Fair value changes on interests in property development	215,569	-	(36,736)	252,305	-	-	-
Share of fair value changes on investment properties of a joint venture	9,240	-	-	-	9,240	-	-
Head office and corporate expenses	(128,785)						
Finance costs	(290,496)						
Profit before taxation	3,172,780						
Share of profits of associated companies	10,203	-	8,445	-	-	-	1,758
Share of profits of joint ventures	23,434	-	(53,814)	-	77,248	-	-
Interest income	128,177	-	-	-	-	-	128,177
Write down of inventories	(348,979)	-	(348,979)	-	-	-	-
Impairment of oil production and exploitation assets	(231,573)	-	-	-	-	(231,573)	-
Depreciation and amortisation	(49,893)	-	-	-	-	(24,157)	(25,736)

During the year ended 31 December 2019, the Group had recognised distributions from interests in property development in Macau with a total amount of HK\$720,000,000 under the property development segment, which did not exceed 10% of the Group's revenue.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2018						
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Revenue	<u>2,842,434</u>	<u>65,492</u>	<u>741,513</u>	<u>1,400,000</u>	<u>350,183</u>	<u>75,053</u>	<u>210,193</u>
Reportable segment profit	2,498,047	43,509	557,886	1,406,187	397,350	(14,777)	107,892
Other net income	987	-	-	-	987	-	-
Fair value changes on investment properties	360,389	-	-	-	360,389	-	-
Fair value changes on interests in property development	174,500	-	4,299	170,201	-	-	-
Share of fair value changes on investment properties of a joint venture	45,674	-	-	-	45,674	-	-
Head office and corporate expenses	(145,148)						
Finance costs	<u>(210,544)</u>						
Profit before taxation	<u>2,723,905</u>						
Share of profits of associated companies	57,552	-	55,335	-	-	-	2,217
Share of profits of joint ventures	343,627	-	232,008	-	111,619	-	-
Interest income	86,817	-	-	-	-	-	86,817
Depreciation and amortisation	(33,074)	-	-	-	-	(17,862)	(15,212)

During the year ended 31 December 2018, the Group had recognised distributions from interests in property development in Macau and Mainland China with a total amount of HK\$1,660,000,000 under the property development segment, which exceeded 10% of the Group's revenue.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2019						
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	48,682,467	7,233,511	15,246,353	12,838,355	12,255,615	95,051	1,013,582
Deferred tax assets	53,523						
Pledged bank deposits	15,000						
Cash and bank balances	3,259,366						
Head office and corporate assets	121,236						
Consolidated total assets	52,131,592						
Interest in associated companies	1,506,604	-	1,504,249	-	-	-	2,355
Interest in and amounts due from joint ventures	4,937,191	-	3,413,775	-	1,523,416	-	-
	2018						
	Consolidated HK\$'000	Property development			Property investment HK\$'000	Oil HK\$'000	Others HK\$'000
		Hong Kong HK\$'000	Mainland China HK\$'000	Macau HK\$'000			
Reportable segment assets	55,095,682	11,050,856	16,896,729	13,305,655	12,134,318	343,485	1,364,639
Deferred tax assets	125,794						
Pledged bank deposits	1,042,161						
Cash and bank balances	1,068,348						
Head office and corporate assets	130,273						
Consolidated total assets	57,462,258						
Interest in associated companies	1,680,459	-	1,645,826	-	-	-	34,633
Interest in and amounts due from joint ventures	4,835,297	-	3,319,017	-	1,516,280	-	-

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 assets and deferred tax assets. The geographical location of customers is based on the location at which the services were provided or the goods were 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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	8,995,720	577,314	10,925,867	11,109,843
Mainland China	1,841,764	790,067	4,607,280	4,667,484
Macau	724,500	1,400,000	1,523,416	1,516,280
Kazakhstan	61,539	75,053	66,706	322,707
	<u>11,623,523</u>	<u>2,842,434</u>	<u>17,123,269</u>	<u>17,616,314</u>

In addition to the above non-current assets, the Group has interests in property development of HK\$10,826,000,000 (2018: HK\$11,149,530,000) and HK\$1,780,030,000 (2018: HK\$1,816,766,000) in Macau and Mainland China respectively.

4 Other net (expenses)/income

Other net expenses mainly represent written down of inventories of HK\$348,979,000 (2018: Nil).

5 Oil production and exploitation assets

As at 31 December 2019, the Group had oil production assets of HK\$60,705,000 (2018: HK\$295,191,000) (included in property, plant and equipment) and oil exploitation assets of HK\$6,001,000 (2018: HK\$27,516,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

The gas flaring permit allowing flaring of associated gas necessary for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited ("PAH") (70.8% owned by the Group), in Kazakhstan expired on 31 December 2018. During the year, gas flaring permits were not renewed for certain months and the Group could only maintain a minimum (i.e. below normal) production level during that period. By the end of 2019, as the pipes to the gas processing plant for processing the associated gas were completely built by Caspi Neft TME, the historic issue regarding the treatment and utilisation of associated gas had been solved permanently. As a result, the gas flaring permit for the year ending 31 December 2020 was obtained and the Group considers that the gas flaring permit will be successfully renewed yearly in future.

As at 31 December 2019, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and whether the carrying values of the oil production and exploitation assets exceeded the estimated recoverable amounts. 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% (2018: 12.5%). Based on the assessment, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by HK\$231,573,000 as at 31 December 2019 in view of various factors of prevailing market and development conditions such as the declining crude oil price forecast; possible higher capital expenditure to be incurred due to the added complexity and technical specification of future well drilling; and the consequential revision of the development plan adopted by the Group. Accordingly, impairment losses for oil production assets and oil exploitation assets amounting to HK\$210,731,000 and HK\$20,842,000 respectively, are provided and recognised as a separate line item in the Group's consolidated income statement. Whereas the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values as at 31 December 2018, therefore, no further impairment loss was considered necessary for the year ended 31 December 2018.

6 Finance costs

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans	389,415	353,480
Interest on loans from related companies	113,084	21,061
Less : Amount capitalised	<u>(212,003)</u>	<u>(163,997)</u>
	<u>290,496</u>	<u>210,544</u>

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Amortisation of oil exploitation assets (<i>Remark</i>)	692	659
Depreciation and amortisation of property, plant and equipment (<i>Remark</i>)	49,201	32,415
Staff costs (<i>Remark</i>)	374,031	236,481
Total staff costs	409,664	273,415
Less: Amount capitalised	(35,633)	(36,934)
	<u> </u>	<u> </u>

Remark : Cost of sales includes HK\$28,341,000 (2018: HK\$22,109,000) 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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	528,485	57,405
– Outside Hong Kong	18,337	10,779
	<u>546,822</u>	68,184
Land appreciation tax (“LAT”)	15,494	3,598
Deferred tax	<u>(51,512)</u>	251
	<u>510,804</u>	<u>72,033</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2018: 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 cost 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\$2,449,733,000 (2018: HK\$2,193,309,000) and the weighted average number of ordinary shares in issue during the year of 1,176,631,296 (2018: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2019 and 2018.

10 Dividends

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Cash dividends:		
Interim dividend declared and paid of HK\$0.24 (2018: HK\$0.22) per share	282,392	258,859
Final dividend proposed after the end of the reporting period of HK\$0.54 (2018: HK\$0.50) per share	<u>635,381</u>	<u>588,316</u>
	917,773	847,175
Special dividend by way of distribution in specie (<i>Remark</i>)	<u>-</u>	<u>81,188</u>
	<u>917,773</u>	<u>928,363</u>

Remark : On 22 August 2018, the Board declared a special dividend to be satisfied by way of distribution of specie of share in PAH on the basis of 1 ordinary share of PAH for every 10 ordinary shares of the Company. A total of 117,663,130 PAH shares with an aggregate market value of approximately of HK\$81,188,000 were recognised as distribution during the year, which represented a distribution of approximately HK\$0.069 per share of the Company.

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

11 Interests in property development

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
At 1 January	13,837,954	13,663,454
Distributions	(720,000)	(1,660,000)
Changes in fair value recognised in profit or loss	935,569	1,834,500
Net changes in fair value	<u>215,569</u>	<u>174,500</u>
At 31 December	<u>14,053,523</u>	<u>13,837,954</u>
Representing:		
Non-current assets	12,606,030	12,966,296
Current assets	<u>1,447,493</u>	<u>871,658</u>
	<u>14,053,523</u>	<u>13,837,954</u>

Interests in property development 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 and one property located at Huizhou, in Mainland China under the co-investment agreements with a related company, Polytec Holdings International Limited ("Polytec Holdings") 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, Polytec Holdings 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 arrangements and other key terms of the co-investment agreements are disclosed in the Company's Circulars dated 23 May 2006 and 30 October 2013. 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 proposed use of land was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ended 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 it was declined by the relevant department of the Macau SAR Government.

11 Interests in property development *(continued)*

On 23 May 2018, the Tribunal de Ultima Instancia (the Court of Final Appeal) of the Macau SAR rejected the application of final appeal by Polytex Corporation Limited (“PCL”), the registered owner of the property of the project and a wholly owned subsidiary of Polytec Holdings, for invalidating the decision made by the Chief Executive of the Macau SAR to terminate the land concession of the project.

Based on the legal opinion obtained by the Group, management is of the view that PCL has strong legal grounds and arguments to seek compensation from the Macau SAR Government for losses and damages, including but not limited to all actual losses suffered and all loss of profit as expected to be derived upon completion of the project, as a result of the procedural delay in granting the requisite approvals and permits for the development of the project which caused the incompleteness of the project before the Expiry Date. On 29 November 2018, PCL had filed a civil claim against the Macau SAR Government to seek compensation for losses and damages on the development project at Lote P.

In addition, pursuant to the co-investment agreement for the development of the project, in the event that PCL fails to complete the project under the co-investment agreement, Polytec Holdings will be required to indemnify the Group in respect of any loss suffered. Therefore, any loss to the Group due to the repossession of the land of the project by the Macau SAR Government will be indemnified by Polytec Holdings. Accordingly, no impairment for the interests in the project was considered necessary at 31 December 2019.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained in July 2017. The pre-sold residential units have been gradually delivered to the purchasers since late December of 2017, and the unsold residential units have been putting on the market for sale in phases.

During the year ended 31 December 2019, pursuant to the co-investment agreements, distributions of Nil (2018: HK\$260,000,000) and HK\$720,000,000 (2018: HK\$1,400,000,000) were made by Polytec Holdings and one of its wholly owned subsidiaries, in relation to the property development projects at Huizhou and Lotes T+T1 respectively. Income arising from interests in property development recognised in the consolidated income statement from the distributions during the year ended 31 December 2019 amounted to HK\$720,000,000 (2018: HK\$1,660,000,000).

As at 31 December 2019, out of the interests in property development, an amount of HK\$1,447,493,000 (2018: HK\$871,658,000) was expected to be recoverable within one year and was classified as current assets.

12 Trade and other receivables/Loans and advances

The following is an ageing analysis (based on the due date) of trade receivables and loans and advances (net of loss allowance) at 31 December:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current	935,898	1,305,913
Within 3 months	18,845	15,139
3 months to 6 months	3,983	309
More than 6 months	11,251	16,510
Trade receivables and loans and advances	969,977	1,337,871
Utility and other deposits	186,571	184,737
Prepaid tax	89,021	99,790
Other receivables and prepayments	631,124	352,038
	1,876,693	1,974,436
Representing:		
Non-current assets	583,171	818,470
Current assets	1,293,522	1,155,966
	1,876,693	1,974,436

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.

Included in utility and other deposits was a deposit of HK\$161,095,000 paid to Polytec Holdings for the proposed acquisition of 60% interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of loans from Polytec Holding. In 2018, the Group has paid the deposit of HK\$161,095,000 for the proposed acquisition through the loan from a related company. The proposed acquisition was terminated in January 2020 and the deposit was refunded to the Group accordingly.

13 Trade and other payables

The following is an ageing analysis (based on the due date) of trade payables at 31 December:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Not yet due or on demand	1,736,530	1,516,406
Within 3 months	3,503	14,914
3 months to 6 months	107	17
More than 6 months	<u>24</u>	<u>3</u>
Trade payables	1,740,164	1,531,340
Rental and other deposits	78,278	80,018
Other payables and accrued expenses	328,268	297,675
Contract liabilities – deposits received on sale of properties	<u>1,912,350</u>	<u>4,492,134</u>
	<u><u>4,059,060</u></u>	<u><u>6,401,167</u></u>

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK\$10,960 million as at 31 December 2019 (31 December 2018: HK\$15,281 million), comprising of HK\$1,527 million repayable within one year and HK\$9,433 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK\$3,259 million, the Group's net bank borrowings position was HK\$7,701 million as at 31 December 2019. Loans from related companies amounted to HK\$3,972 million as at 31 December 2019.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loans from related companies less amounts due from related companies over equity attributable to shareholders of the Company) was 41.3% as at 31 December 2019 (31 December 2018: 66.2%).

During the year, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK\$6,698 million to the Group. Furthermore, the Group has recorded of approximately HK\$998 million cash inflows mainly from sales/presales of various development projects in Mainland China.

During the year, distributions of HK\$720 million were made by a wholly owned subsidiary of a related company to the Group in relation to the development project at La Marina.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK\$2,797 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 revenue and cash generated from the development projects in Mainland China and/or external borrowings in RMB, 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 2019, 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 a related company, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

Capital commitments

As at 31 December 2019, the Group had commitments mainly in connection with the Group’s investment properties amounting to HK\$25 million.

Pledge of assets

As at 31 December 2019, properties having a value of HK\$15,168 million and bank deposits of HK\$15 million were pledged to financial institutions mainly to secure banking 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\$569 million, representing a 50% proportional guarantee in respect of HK\$1,139 million term loan facilities. The facilities were not yet utilised as at 31 December 2019.

As at 31 December 2019, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK\$55 million.

HUMAN RESOURCES

As of 31 December 2019, the Group had a total of 3,062 employees (2018: 858 employees), of which 2,836 were Hong Kong staff, 135 were Mainland China staff and 91 were staff in other regions. The increase in headcount was mainly to match business growth and the acquisition of Easy Living Consultant Limited as a subsidiary of the Company in August 2019 with 2,226 persons being added. During the year, total staff costs increased to HK\$410 million (2018: HK\$273 million). It was mainly due to an increase in headcount other than salary revisions. 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 Group's independent auditor, KPMG, Certified Public Accountants, the consolidated financial statements of the Group for the year ended 31 December 2019 including critical accounting policies and practices adopted by the Group.

Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2019 as set out in the announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2019 and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other 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 the auditor.

Compliance with the Corporate Governance Code

Throughout the year, the Company has complied with all code provisions 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 Provision A.2.1 as explained below:

Code Provision A.2.1

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. This combining of the roles enables the Company to make prompt and effective decisions. The corporate governance principles of the Company emphasise the importance of a quality Board 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.

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 2019.

2020 AGM

The 2020 AGM of the Company will be held on Wednesday, 10 June 2020. The Notice of the 2020 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 2020 AGM, the Register of Members of the Company will be closed from Friday, 5 June 2020 to Wednesday, 10 June 2020, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2020 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 (Hong Kong time) on Thursday, 4 June 2020.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Wednesday, 17 June 2020 to Thursday, 18 June 2020, both dates inclusive. During the aforementioned 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 (Hong Kong time) on Tuesday, 16 June 2020.

Publication of Annual Report

The Annual Report 2019 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 by the end of April 2020.

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

Hong Kong, 25 March 2020

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.