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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 2021

HIGHLIGHTS

- For the year ended 31 December 2021, the Group's net profit attributable to shareholders of the Company amounted to HK\$2,209 million compared to HK\$801 million in 2020, an increase of 175.8%.
- Excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interest in the property development and provision and fair value changes for financial investments, underlying net profit attributable to shareholders of the Company for 2021 fell to HK\$642 million from HK\$1,299 million in 2020, a decrease of 50.6%. The underlying net earnings per share for 2021 were HK\$0.55 compared to HK\$1.10 in 2020.
- Final dividend of HK\$0.57 per share is proposed. Full year dividend for 2021 amounts to HK\$0.82 per share.

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2021, the Group's net profit attributable to shareholders of the Company amounted to HK\$2,209 million compared to HK\$801 million in 2020, an increase of 175.8%. Excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interest in the property development and provision and fair value changes for financial investments, underlying net profit attributable to shareholders of the Company for 2021 fell to HK\$642 million from HK\$1,299 million in 2020, a decrease of 50.6%. The underlying net earnings per share for 2021 were HK\$0.55 compared to HK\$1.10 in 2020.

The Board of Directors has recommended the payment of a final dividend of HK\$0.57 per share for the year ended 31 December 2021 (2020: HK\$0.56). Together with the 2021 interim dividend of HK\$0.25 per share (2020: HK\$0.24), the full year dividend for 2021 amounts to HK\$0.82 per share (2020: HK\$0.80).

The final dividend will be payable on Wednesday, 6 July 2022 to shareholders whose names appear on the Register of Members of the Company on Friday, 24 June 2022, subject to the approval of shareholders at the 2022 Annual General Meeting (the “2022 AGM”).

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, despite being affected sporadically by the COVID-19 pandemic throughout 2021, with ample liquidity in the market and ultra-low interest rates, home buyers’ appetite remained strong. Therefore, the residential property market still performed well, with overall transaction volume rising considerably and transacted price remaining at high levels for the year under review.

In Mainland China, the Central Government has been imposing various restrictive measures on the property market over the past years. However, it intensified the measures in September last year, triggering liquidity problems, with both transaction volume and transacted price declining, particularly in the residential property market. The transaction volume has seen noticeable downward pressures since then.

Development Property Sales

In Hong Kong, the Group launched the first stage of presale of its wholly-owned high-end residential development project, namely Manor Hill, in Tseung Kwan O in October 2021 and it has been well received by the market. Together with the presale proceeds from Manor Hill, total presales/sales from the Group’s wholly-owned development projects amounted to approximately HK\$3.2 billion for the year under review.

In Mainland China, total presales/sales of the Group’s development projects amounted to approximately RMB3.7 billion for 2021, with presales/sales attributable to the Group of approximately RMB2.2 billion (approximately HK\$2.7 billion).

Property Development

As announced on 29 October 2021, the Group accepted the offer from the Lands Department in Hong Kong in relation to the land exchange at No. 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon and the land premium of HK\$9,658 million was fully paid on 13 January 2022.

The lot is now wholly-owned by the Group and intended for commercial and residential use, with the total site area of approximately 22,380 sq m and a maximum total gross floor area (“GFA”) of approximately 200,980 sq m. The land exchange has further broadened and strengthened the foundation of the Group’s property development.

As at 31 December 2021, the Group's landbank for development amounted to approximately 3.6 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. GFA (sq m)	Approx. GFA Booked ^{**} (sq m)	Group's Interest	Project Status	Expected Date of Completion
Hong Kong								
Manor Hill	Tseung Kwan O, New Territories	Residential	9,640	48,200	—	100%	Superstructure works completed for Occupation Permit issuance [#]	Mid-2022
High Street	Sai Ying Pun, Hong Kong	Residential & commercial	508	4,660	—	60%	Ready for demolition	End-2024
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	22,380 [†]	200,980 [†]	—	100%	Site formation works in progress [‡]	2025/2026
Mainland China								
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,000	712,000	369,000	100%	Foundation works for Phase 5 (approx. GFA of 240,000 sq m) in progress	Phase 5 2024/2025
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	637,000	100%	Superstructure works for Phase 3A (approx. GFA of 74,000 sq m) completed	Phase 3A 2022
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,000	520,000	247,000	60%	Planning works for Phase 3 (approx. GFA of 96,000 sq m) in progress	Phase 3 2023 – 2024
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,021,000	1,600,000	854,000	50%	Superstructure works for Phase 3 (approx. GFA of 143,000 sq m) completed	Phase 3 2022
Le Cove City (Wuxi) 江灣城 (無錫)	Liangxi District, Wuxi	Residential & commercial	69,000	365,000	111,000	100%	Foundation works for Phase 3 (approx. GFA of 73,000 sq m) completed Superstructure works for Phase 4 (approx. GFA of 170,000 sq m) in progress	Phase 3 2023 Phase 4 2024

Major Property Projects under Planning and Development (Continued)

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. GFA (sq m)	Approx. GFA Booked* (sq m)	Group's Interest	Project Status	Expected Date of Completion
Mainland China (Continued)								
City Plaza (Tianjin) 城市廣場 (天津)	Hedong District, Tianjin	Residential & commercial	136,000	850,000	247,000	49%	Superstructure works for Phase 3A (approx. GFA of 300,000 sq m) in progress Foundation works for Phase 3B (approx. GFA of 280,000 sq m) in progress	Phase 3A 2022 – 2023 Phase 3B 2025
Yangpu (Shanghai) 楊浦 (上海)	Yangpu District, Shanghai	Residential & commercial	21,000	75,000	—	100%	Master planning and design in progress	2026
Jiexiu (Shanxi) 介休 (山西)	Jiexiu	Residential & commercial	181,000	463,000	—	100%	Foundation works for Phase 1A (approx. GFA of 88,000 sq m) completed	2023 – 2026

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

Obtained the Occupation Permit on 27 January 2022.

☆ The Group accepted the land exchange offer in October 2021 and fully paid the land premium in January 2022. The land exchange procedure was also completed in January 2022.

Property Investment in Hong Kong

Over the past year, the Group has been making every effort to improve the occupancy rate of its investment property portfolio and it made some achievement. Despite the challenges arising from the COVID-19 outbreak, and the rental concession for tenants, gross rental income generated from the Group's investment property portfolio in Hong Kong for 2021 still recorded an increase of 3.4%, rising to HK\$303 million from HK\$293 million in 2020.

Financial Investments

For the year ended 31 December 2021, total interest income and dividend income generated from the Group's financial investment activities fell to HK\$99 million from HK\$108 million in 2020, a decrease of 8.3%.

PROSPECTS

With the COVID-19 pandemic still persisting throughout 2021, at the early stages of the outbreak, in response to the pandemic starting at the end of 2019, most major western countries in the world had taken extraordinary measures to mitigate adverse impacts arising from the pandemic and to support their respective economy by aggressively cutting interest rates, implementing quantitative easing as well as adding fiscal stimulus. While these measures have proved to be effective in reviving these economies, they have also resulted in widespread elevated inflation with prices of commodities as well as financial products and assets accelerating. In addition, the Russia-Ukraine conflict has been affecting the supply of raw materials and food since February 2022, further intensifying inflationary pressures and bringing great challenges to revive the global economy to a healthy state. It is expected that these major western countries need to start tightening their respective monetary policy by unwinding the quantitative easing and raising interest rates to ease accelerating inflationary pressures. Therefore, interest rates in Hong Kong will inevitably rise in the coming year. Together with the recent rapid resurgence of the OMICRON outbreak in many cities in Mainland China and Hong Kong, it will unavoidably have adverse impacts on the economy and people's daily lives, adding challenges and uncertainties to the property markets in both Mainland China and Hong Kong.

In Hong Kong, the Group obtained the Occupation Permit for Manor Hill, its wholly-owned residential development project in Tseung Kwan O, in January 2022 and it is expected to obtain the Certificate of Compliance in the middle of 2022 and then deliver the residential units to the buyers. Due to the current epidemic situation, the Group decided to postpone the plan of launching the second stage of the presale once the pandemic is under control.

The preliminary design works for the Group's 60%-owned residential and commercial development project on High Street in Sai Ying Pun (Hong Kong) was completed and the demolition works will be commenced shortly.

The land exchange procedure for the Clear Water Bay Road project located in Ngau Chi Wan (Hong Kong) was completed in January 2022 and the site formation works are well underway. The site is favourably located in the vicinity of the Choi Hung MTR Station and the Group intends to develop it into a complex comprising five high-end modern residential towers over a sizeable shopping mall offering a one-stop destination with shopping, dining and entertainment.

In Mainland China, the presale of the Phase 2 residential development of Le Cove Garden in Huizhou was completed in early 2022 and delivered to the buyers. The project has been well received by the market due to its excellent design, with almost all residential units being sold. The master plan of the Phase 3 residential development is pending approval from the authorities.

In Shenyang, a large portion of the Phase 3A residential development of The Gardenia was completed and delivered to the buyers. The remaining portion of the Phase 3A residential development is expected to be completed in the third quarter of 2022 and the sold residential units will be delivered to the buyers by then. The foundation works for the Phase 5 development of Le Cove City are underway.

In Wuxi, various works for both the Phase 3 and Phase 4 developments of Le Cove City are in progress. The presale of the Phase 3 development is expected to be launched in the second quarter of 2022.

The presale of the remaining units of the Group's joint venture development projects in Foshan and Tianjin, namely The Lake and City Plaza respectively, will continue in the coming year. The Phase 3 development of The Lake is expected to be completed by 2022 while the Phase 3A development of City Plaza is expected to be completed in 2022 to 2023.

In Shanghai, the overall planning and design for the Group's redevelopment project is in progress, with the relocation works and demolition works already being completed.

In Jiexiu, Shanxi, the foundation works for the Phase 1A development of the Group's wholly-owned project was completed and the presale is expected to be launched during 2022.

In view of the slowing overall sale activity in Mainland China due to various restrictive measures imposed on the property market, the Group will be cautious in coming up with its strategy and planning for future development in Mainland China. However, the negative impacts from the slowdown of the sale activity in Mainland China would be offset by the satisfactory first stage presale of its development project, Manor Hill, in Hong Kong last year and therefore the impact on the Group's overall underlying results for 2022 is expected to be minimal.

It is encouraging that following the completion of the land exchange, the potential of the Group's most important landbank from its sizeable Clear Water Bay Road development project has finally been unlocked after many years. The Group intends to develop it into its flagship project aiming to become a landmark residential and commercial complex in the community of the Kowloon East District. Looking forward, the Group will pledge to strive for better results when the property market in Hong Kong stabilising, with the continuing efforts from all staff.

I would like to express my sincere gratitude to my fellow Directors for their strong support and our staff for their dedication.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2021 together with the comparative figures of 2020 are as follows:

Consolidated Income Statement for the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Continuing operations			
Revenue	3	2,050,388	4,706,037
Cost of sales		(533,028)	(2,184,685)
Other revenue		74,930	92,913
Other net expenses	4(a)	(979,034)	(33,270)
Depreciation and amortisation		(22,837)	(30,862)
Staff costs		(595,016)	(612,472)
Selling, marketing and distribution expenses		(145,716)	(294,470)
Other operating expenses		(96,281)	(169,697)
Fair value changes on investment properties		2,585,549	(562,037)
Fair value changes on interest in property development		58,259	31,741
Profit from operations		2,397,214	943,198
Finance costs	4(b)	(41,825)	(135,483)
Share of (losses)/profits of associated companies		(7,946)	8,263
Share of (losses)/profits of joint ventures		(12,177)	19,619
Profit before taxation	4	2,335,266	835,597
Income tax	5	(125,212)	(233,435)
Profit for the year from continuing operations		2,210,054	602,162
Discontinued operations			
Profit for the year from discontinued operations	6	–	295,714
Profit for the year		2,210,054	897,876

Consolidated Income Statement *(continued)*
for the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Attributable to:			
Shareholders of the Company		2,209,081	800,868
Non-controlling interests		973	97,008
		<hr/>	<hr/>
Profit for the year		<u>2,210,054</u>	<u>897,876</u>
Attributable to shareholders of the Company arising from:			
Continuing operations		2,209,081	591,532
Discontinued operations	6	–	209,336
		<hr/>	<hr/>
		<u>2,209,081</u>	<u>800,868</u>
Attributable to non-controlling interests arising from:			
Continuing operations		973	10,630
Discontinued operations	6	–	86,378
		<hr/>	<hr/>
		<u>973</u>	<u>97,008</u>
Earnings per share – Basic and diluted			
Continuing operations	7	HK\$1.88	HK\$0.50
Discontinued operations		–	HK\$0.18
		<hr/>	<hr/>
		<u>HK\$1.88</u>	<u>HK\$0.68</u>

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Profit for the year	<u>2,210,054</u>	<u>897,876</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	129,515	261,416
Share of other comprehensive income of joint ventures and associated companies	<u>99,744</u>	<u>248,695</u>
	<u>229,259</u>	<u>510,111</u>
Total comprehensive income for the year	<u>2,439,313</u>	<u>1,407,987</u>
Attributable to:		
Shareholders of the Company	2,436,433	1,296,884
Non-controlling interests	<u>2,880</u>	<u>111,103</u>
Total comprehensive income for the year	<u>2,439,313</u>	<u>1,407,987</u>
Total comprehensive income for the year attributable to shareholders of the Company arising from:		
Continuing operations	2,436,433	1,087,548
Discontinued operations	<u>–</u>	<u>209,336</u>
	<u>2,436,433</u>	<u>1,296,884</u>
Total comprehensive income for the year attributable to non-controlling interests arising from:		
Continuing operations	2,880	24,725
Discontinued operations	<u>–</u>	<u>86,378</u>
	<u>2,880</u>	<u>111,103</u>

Consolidated Statement of Financial Position

At 31 December 2021

		2021		2020	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Investment properties			13,479,600		9,859,630
Property, plant and equipment			272,092		291,529
Interest in property development	9		1,870,030		1,811,771
Interest in a joint venture			2,111,642		2,067,652
Interest in associated companies			1,486,033		1,527,988
Other financial assets			445,036		916,503
Trade and other receivables	10		77,018		87,340
Loans and advances	10		373,030		514,304
Deferred tax assets			49,665		37,409
			<u>20,164,146</u>		<u>17,114,126</u>
Current assets					
Inventories			26,041,755		15,040,616
Trade and other receivables	10		674,711		579,031
Loans and advances	10		13,699		18,309
Other financial assets			66,892		105,671
Amount due from a joint venture			112,883		112,883
Cash and bank balances			1,043,140		1,133,841
			<u>27,953,080</u>		<u>16,990,351</u>

Consolidated Statement of Financial Position *(continued)**At 31 December 2021*

		2021		2020	
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities					
Trade and other payables	<i>11</i>	11,720,094		2,403,642	
Amount due to a joint venture		491,071		477,046	
Loan from an associated company		48,458		47,075	
Bank loans		2,053,727		5,747,849	
Current taxation		315,538		488,433	
		<u>14,628,888</u>		<u>9,164,045</u>	
Net current assets			<u>13,324,192</u>		<u>7,826,306</u>
Total assets less current liabilities			33,488,338		24,940,432
Non-current liabilities					
Loan from a related company		1,199,073		695,335	
Bank loans		12,648,339		6,127,401	
Deferred tax liabilities		566,492		529,503	
			<u>14,413,904</u>		<u>7,352,239</u>
NET ASSETS			<u><u>19,074,434</u></u>		<u><u>17,588,193</u></u>
Capital and reserves					
Share capital			8,636,490		8,636,490
Reserves			<u>10,316,598</u>		<u>8,833,237</u>
Total equity attributable to the shareholders of the Company			18,953,088		17,469,727
Non-controlling interests			<u>121,346</u>		<u>118,466</u>
TOTAL EQUITY			<u><u>19,074,434</u></u>		<u><u>17,588,193</u></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 2021 and 2020 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 2020 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 2021 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 amendments to 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 certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. None of the development has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented.

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

3 Segment reporting

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

Continuing operations:

- Property development segment (Hong Kong/Mainland China): the development and sale of properties and interest in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into two 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.
- Other businesses segment: mainly includes the provision of property management services, the financial investments, the provision of finance services and treasury operations.

Discontinued operations:

- Property development segment (Macau): the development and sale of properties and interest in property development.
- Oil segment: oil exploration and production.

The property development in Macau and oil operation had been disposed of and classified as discontinued operations, and the related information has been set out in note 6.

Revenue comprises mainly rental income from properties, gross proceeds from sale of properties, income from interest in property development, property management service income and interest income.

Reportable segment profit represents profit before taxation by excluding fair value changes on interest in property development and investment properties, finance costs and head office and corporate income/expenses.

Reportable 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.

	2021				
	Continuing operations				
	Property development				
	Total	Hong Kong	Mainland China	Property investment	Others <i>(Remark 1)</i>
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	2,050,388	465,844	609,842	302,979	671,723
Reportable segment (loss)/profit	(206,150)	178,564	278,357	281,155	(944,226)
Fair value changes on investment properties	2,585,549	–	–	2,585,549	–
Fair value changes on interest in property development	58,259	–	58,259	–	–
Head office and corporate expenses	(60,567)				
Finance costs	(41,825)				
Profit before taxation	2,335,266				
Share of losses of associated companies	(7,946)	–	(7,359)	–	(587)
Share of loss of a joint venture	(12,177)	–	(12,177)	–	–
Interest income	139,674	–	–	–	139,674
Depreciation and amortisation	22,837	–	–	–	22,837

During the year ended 31 December 2021, the Group had recognised distribution from interest in property development in Mainland China with an amount of HK\$220,000,000 under the property development segment, which exceeded 10% of the Group's revenue.

Remark 1:

Others included revenue from property management services of HK\$409,041,000 (2020: HK\$400,091,000) and the relevant segment profit of HK\$4,278,000 (2020: HK\$3,773,000)

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2020								
	Continuing operations						Discontinued operations		
	Total	Sub-total	Property development		Property investment	Others	Property development		
			Hong Kong	Mainland China			Macau	Oil	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
					(Remark 1)				
Revenue	<u>5,011,768</u>	<u>4,706,037</u>	<u>3,131,912</u>	<u>504,470</u>	<u>293,099</u>	<u>776,556</u>	<u>305,731</u>	<u>280,280</u>	<u>25,451</u>
Reportable segment profit/(loss)	1,865,790	1,652,400	1,201,157	(29,521)	308,114	172,650	213,390	286,330	(72,940)
Fair value changes on investment properties	(562,037)	(562,037)	-	-	(562,037)	-	-	-	-
Fair value changes on interest in property development	118,394	31,741	-	31,741	-	-	86,653	86,653	-
Share of fair value changes on investment properties of a joint venture	(40,979)	(40,979)	-	-	(40,979)	-	-	-	-
Head office and corporate expenses	(110,045)	(110,045)	-	-	-	-	-	-	-
Finance costs	<u>(135,483)</u>	<u>(135,483)</u>	-	-	-	-	-	-	-
Profit before taxation	<u>1,135,640</u>	<u>835,597</u>	-	-	-	-	<u>300,043</u>	-	-
Share of profits/(losses) of associated companies	8,263	8,263	-	9,077	-	(814)	-	-	-
Share of profits/(losses) of joint ventures	19,619	19,619	-	(1,193)	20,812	-	-	-	-
Interest income	197,284	197,284	-	-	-	197,284	-	-	-
Impairment of oil production and exploitation assets	(59,463)	-	-	-	-	-	(59,463)	-	(59,463)
Depreciation and amortisation	(40,556)	(30,862)	-	-	-	(30,862)	(9,694)	-	(9,694)

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2021				
	Property development				
	Total	Hong Kong	Mainland China	Property investment	Others (Remark 2)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Reportable segment assets	46,935,391	16,267,554	15,878,554	13,496,872	1,292,411
Deferred tax assets	49,665				
Cash and bank balances	1,043,140				
Head office and corporate assets	89,030				
Total assets	48,117,226				
Interest in associated companies	1,486,033	–	1,485,079	–	954
Interest in and amount due from a joint venture	2,224,525	–	2,224,525	–	–
			2020		
	Property development				
	Total	Hong Kong	Mainland China	Property investment	Others (Remark 2)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Reportable segment assets	32,836,459	6,211,195	14,775,842	9,884,136
Deferred tax assets	37,409				
Cash and bank balances	1,133,841				
Head office and corporate assets	96,768				
Total assets	34,104,477				
Interest in associated companies	1,527,988	–	1,526,447	–	1,541
Interest in and amount due from a joint venture	2,180,535	–	2,180,535	–	–

Remark 2:

Others included reportable segment assets of property management services amounting to HK\$106,439,000 (2020: HK\$103,627,000).

3 Segment reporting (continued)

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial 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 a joint venture, the location of operations.

	Revenue		Non-current assets	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
<u>Continuing operations</u>				
Hong Kong (place of domicile)	1,331,372	4,056,073	13,749,289	10,149,229
Mainland China	621,097	544,939	3,600,078	3,597,570
Others	97,919	105,025	–	–
	<u>2,050,388</u>	<u>4,706,037</u>	<u>17,349,367</u>	<u>13,746,799</u>
<u>Discontinued operations</u>				
Macau	–	280,280	–	–
Kazakhstan	–	25,451	–	–
	<u>–</u>	<u>305,731</u>	<u>–</u>	<u>–</u>
	<u>2,050,388</u>	<u>5,011,768</u>	<u>17,349,367</u>	<u>13,746,799</u>

In addition to the above non-current assets, the Group has interest in property development of HK\$1,870,030,000 (2020: HK\$1,811,771,000) in Mainland China.

4 Profit before taxation from continuing operations

Profit before taxation from continuing operations is arrived at after charging/(crediting) the amounts as set out below.

(a) Other net expenses

Other net expenses mainly represent provisions and fair value losses on other financial assets of HK\$1,076,700,000 (2020: HK\$34,017,000) and offset by the write back of construction cost accrual of HK\$95,169,000 (2020: HK\$Nil).

(b) Finance costs

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on bank loans	249,294	314,184
Interest on loan from a related company	9,197	22,409
Less: Amount capitalised	<u>(216,666)</u>	<u>(201,110)</u>
	<u>41,825</u>	<u>135,483</u>

(c) Other items

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Depreciation and amortisation of property, plant and equipment	22,837	30,862
Staff costs (Remark)	595,016	623,824
Total staff costs	622,664	658,633
Less: Amount capitalised	<u>(27,648)</u>	<u>(34,809)</u>

Remark:

Selling, marketing and distribution expenses includes HK\$Nil (2020: HK\$11,352,000) relating to staff costs, which amount is also included in the total amount disclosed above.

5 Income tax

Taxation from continuing operations in the consolidated income statement represents:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	78,504	257,285
– Outside Hong Kong	9,748	4,325
	88,252	261,610
Land appreciation tax (“LAT”)	18,926	–
Deferred tax	18,034	(28,175)
	125,212	233,435

The provision for Hong Kong Profits Tax is calculated at 16.5% (2020: 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.

6 Discontinued operations

On 19 August 2020, the Board of Directors declared a special dividend that was satisfied by way of distribution in specie of the shares in Polytec Asset Holdings Limited (“PAH”) held by the Group to the shareholders of the Company.

Upon completion of the distribution in specie, the Group no longer engaged in property development in Macau and oil operation which were solely attributable to PAH. Accordingly, these operations were classified as discontinued operations.

The distribution in specie was completed on 30 October 2020 and the Group’s property development in Macau and oil operation ceased thereafter.

The results of discontinued operations were as follows:

	2020
	<i>HK\$’000</i>
Revenue	305,731
Cost of sales	(21,689)
Other revenue	8,075
Depreciation and amortisation	(127)
Staff costs	(8,591)
Selling, marketing and distribution expenses	(5,688)
Impairment of oil production and exploitation assets	(59,463)
Other operating expenses	(4,858)
Fair value changes on interest in property development	86,653
	<hr/>
Profit before taxation	300,043
Income tax	(4,329)
	<hr/>
Profit for the year from discontinued operations	<u>295,714</u>
Attributable to:	
Shareholders of the Company	209,336
Non-controlling interests	86,378
	<hr/>
	<u>295,714</u>

7 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 arising from continuing operations and discontinued operations of HK\$2,209,081,000 (2020: HK\$591,532,000) and HK\$Nil (2020: HK\$209,336,000) respectively and the weighted average number of ordinary shares in issue during the year of 1,176,631,296 (2020: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2021 and 2020.

8 Dividends

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash dividends:		
Interim dividend declared and paid of HK\$0.25 (2020: HK\$0.24) per share	294,158	282,392
Final dividend proposed after the end of the reporting period of HK\$0.57 (2020: HK\$0.56) per share	670,680	658,914
	964,838	941,306

Remark:

On 19 August 2020, the Board of Directors declared a special dividend which was satisfied by way of distribution in specie on the basis of 2.67 ordinary share of PAH for every 1 ordinary share of the Company.

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

9 Interest in property development

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	1,811,771	14,053,523
Distribution	(220,000)	(280,000)
Change in fair value recognised in profit or loss	278,259	398,394
Net changes in fair value		
– continuing operations	58,259	31,741
– discontinued operations	–	86,653
Distribution in specie	–	(12,360,146)
At 31 December	<u>1,870,030</u>	<u>1,811,771</u>

Interest in property development represent the Group's interest in the development property located at Huizhou in Mainland China under the co-investment agreement with a related company, Polytec Holdings International Limited ("Polytec Holdings"). Details of the funding arrangement and other key terms of the co-investment agreement were disclosed in the Company's Circulars dated 30 October 2013. Interest in property development are stated at fair value at the end of the reporting period.

During the year ended 31 December 2021, pursuant to the co-investment agreement, distribution of HK\$220,000,000 was made by Polytec Holdings to the Group, in relation to the property development project at Huizhou (2020: HK\$280,000,000 was made by a wholly owned subsidiary of Polytec Holdings, in relation to the property development project in Macau) is recognised in profit or loss.

10 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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	582,432	734,786
Within 3 months	40,060	37,076
3 months to 6 months	5,230	5,587
More than 6 months	11,930	7,943
	<hr/>	<hr/>
Trade receivables and loans and advances	639,652	785,392
Utility and other deposits	19,068	21,749
Prepaid tax	92,610	88,745
Other receivables and prepayments	387,128	303,098
	<hr/>	<hr/>
	1,138,458	1,198,984
	<hr/> <hr/>	<hr/> <hr/>
Representing:		
Non-current assets	450,048	601,644
Current assets	688,410	597,340
	<hr/>	<hr/>
	1,138,458	1,198,984
	<hr/> <hr/>	<hr/> <hr/>

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.

11 Trade and other payables

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

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due or on demand	10,897,687	1,792,205
Within 3 months	8,384	1,923
3 months to 6 months	40	–
More than 6 months	–	9
	<hr/>	<hr/>
Trade payables	10,906,111	1,794,137
Rental and other deposits	73,712	72,759
Other payables and accrued expenses	295,071	300,661
Contract liabilities – deposits received on sale of properties	445,200	236,085
	<hr/>	<hr/>
	11,720,094	2,403,642
	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK\$14,702 million as at 31 December 2021 (31 December 2020: HK\$11,875 million), comprising of HK\$2,054 million repayable within one year and HK\$12,648 million repayable after one year. Taking into account of cash and bank balances with an amount of HK\$1,043 million, the Group's net bank borrowings position was HK\$13,659 million as at 31 December 2021. Loan from a related company amounted to HK\$1,199 million as at 31 December 2021.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from a related company over equity attributable to shareholders of the Company) was 78.4% as at 31 December 2021 (31 December 2020: 65.5%). The gearing ratio will increase further upon full payment of the land premium for the development project located at No. 35 Clear Water Bay Road, Ngau Chi Wan, Hong Kong in January 2022 and is expected to be improved upon recognised sale of Manor Hill (Tseung Kwan O project), Hong Kong from 2022 onwards.

During the year, presales/sales for the property projects in Hong Kong contributed cash inflows of approximately HK\$624 million to the Group. Furthermore, the Group recorded approximately HK\$469 million cash inflows mainly from presales/sales of various development projects in Mainland China.

During the year, distribution of HK\$220 million was received from a related company to the Group in relation to the development project at Le Cove Garden (Huizhou).

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK\$2,045 million for construction costs during the year.

In October 2021, the Group has accepted the land exchange offer for the land located at No. 35 Clear Water Bay Road, Ngau Chi Wan, Hong Kong at the land premium of HK\$9,658 million. The Group has paid HK\$965.8 million in October 2021 and the balance payment was settled in January 2022.

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.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows from presales/sales 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 2021, the Group had commitments mainly in connection with the Group's investment properties amounting to HK\$22 million.

Pledge of assets

As at 31 December 2021, properties having a value of HK\$12,932 million and deposits of HK\$13 million were pledged to banks and insurance companies mainly to secure banking facilities and performance bonds extended to the Group.

Contingent liabilities

As at 31 December 2021, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK\$36 million.

HUMAN RESOURCES

As at 31 December 2021, the Group had a total of 2,854 employees (2020: 2,906 employees), of which 2,705 were Hong Kong staff and 149 were Mainland China staff. During the year, total staff costs decreased to HK\$623 million (2020: HK\$670 million). 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 conducted a Christmas lucky draw for employees during the year to promote team spirit and loyalty and encourage communication among 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 2021 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 2021 as set out in the announcement have been compared by the Group's independent auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2021 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 as set out in the Corporate Governance Code in force during the year which 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 has performed the combined role as the chairman of the Board 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 2021.

2022 AGM

The 2022 AGM of the Company will be held on Wednesday, 8 June 2022. The Notice of the 2022 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 2022 AGM, the Register of Members of the Company will be closed from Thursday, 2 June 2022 to Wednesday, 8 June 2022, 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 2022 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 Wednesday, 1 June 2022.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Thursday, 23 June 2022 to Friday, 24 June 2022, 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 Wednesday, 22 June 2022.

Publication of Annual Report

The Annual Report 2021 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 2022.

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

Hong Kong, 23 March 2022

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.