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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 2022

HIGHLIGHTS

- Excluding revaluation changes from its investment properties and fair value changes on its interests in the property development and fair value changes for financial investments, the Group's underlying profit attributable to shareholders of the Company for 2022 rose to HK\$1,107 million from HK\$642 million in 2021, an increase of 72.4%. The underlying earnings per share for 2022 were HK\$0.94 compared to HK\$0.55 in 2021.
- Due to a significant decline in net fair value gains on investment properties in Hong Kong, the Group's profit attributable to shareholders of the Company for the year ended 31 December 2022 amounted to HK\$1,215 million compared to HK\$2,209 million in 2021, a decrease of 45.0%.
- Final dividend of HK\$0.57 per share is proposed. Full year dividend for 2022 amounts to HK\$0.83 per share.

GROUP RESULTS AND DIVIDENDS

Excluding revaluation changes from its investment properties and fair value changes on its interests in the property development and fair value changes for financial investments, the Group's underlying profit attributable to shareholders of the Company for 2022 rose to HK\$1,107 million from HK\$642 million in 2021, an increase of 72.4%. The underlying earnings per share for 2022 were HK\$0.94 compared to HK\$0.55 in 2021. Due to a significant decline in net fair value gains on investment properties in Hong Kong, the Group's profit attributable to shareholders of the Company for the year ended 31 December 2022 amounted to HK\$1,215 million compared to HK\$2,209 million in 2021, a decrease of 45.0%.

The Board of Directors has recommended the payment of a final dividend of HK\$0.57 per share for the year ended 31 December 2022 (2021: HK\$0.57). Together with the 2022 interim dividend of HK\$0.26 per share (2021: HK\$0.25), the full year dividend for 2022 amounts to HK\$0.83 per share (2021: HK\$0.82).

The final dividend will be payable on Wednesday, 5 July 2023 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 20 June 2023, subject to the approval of shareholders at the 2023 Annual General Meeting (the “2023 AGM”).

MARKET OVERVIEW AND BUSINESS REVIEW

The COVID-19 pandemic, which has already lasted for three years, together with the outbreak of the Russia-Ukraine war in early 2022, had caused severe global supply chain disruptions. Major commodity prices and services costs have increased substantially, leading to a significant surge in inflation around the globe. Consequently, most major economies in the world, with exception in Mainland China, have been forced to raise their respective interest rates aggressively to ease inflationary pressures. The Federal Reserve has already raised its federal funds target rate seven times in 2022, with interest rate increases in the US amounting to 4.25% in total. The rate hikes exerted a substantial negative impact on the global economy, asset prices and in particular, the Hong Kong property market.

Due to the link between the HK dollar and the US currency, Hong Kong interest rates had followed the upward trend in the US, with Hong Kong interbank rates having increased up to a record of over 5% at one point during the past year. Coupled with the implementation of strict pandemic prevention measures and travel restrictions in response to the fifth wave of the pandemic, economic activities in Hong Kong were further affected, dragging down the performance of its property market. According to data released by the Rating and Valuation Department, residential property prices fell by more than 15% in 2022, ending over the 13 consecutive years of price increases, with the transaction volumes contracting substantially as well.

Fortunately, the Hong Kong Government significantly relaxed various pandemic prevention measures and eliminated a number of entry and quarantine restrictions at the end of 2022. In addition, the resumption of normal cross-border travel between Hong Kong and Mainland China in early 2023 have further driven more sale activity in the residential property market in Hong Kong, and prices have stabilised.

Development Property Sales

In Hong Kong, the Group’s wholly-owned high-end residential development project, namely Manor Hill, in Tseung Kwan O was completed and the Certificate of Compliance was obtained in October 2022, with the sold residential units having then been delivered to home buyers. Over 520 residential units at Manor Hill were sold as at 31 December 2022, with total sale proceeds of approximately HK\$3.0 billion being recognised for the year under review.

In Mainland China, total attributable presales/sales from the Group’s development projects amounted to approximately RMB2.0 billion for the year ended 31 December 2022.

Property Development

For the year under review, the Company acquired the entire issued share capital in the company holding 70% interest in a property development project in Zhuhai with a total site area of 38,416.01 sq m and an aggregate gross floor area (“GFA”) of 198,775.90 sq m from a related company. The acquisition was completed on 25 July 2022, which has successfully replenished the Group’s quality landbank in Mainland China.

As at 31 December 2022, the Group’s landbank for development amounted to approximately 3.4 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								
High Street	Sai Ying Pun, Hong Kong	Residential & commercial	500	4,700	—	60%	Foundation works in progress	2025/2026
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	22,400	201,000	—	100%	Foundation works in progress	2026 – 2028
Mainland China								
Le Cove City (Shenyang) 江灣城 (瀋陽)	Hun Nan Xin District, Shenyang	Residential & commercial	165,000	712,000	370,000	100%	Foundation works for Phase 5 (approx. GFA of 240,000 sq m) in progress	Phase 5 2025
The Gardenia (Shenyang) 翠堤灣 (瀋陽)	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	663,000	100%	Modification for subsequent development plan in progress	To be determined
Le Cove Garden (Huizhou) 江灣南岸花園 (惠州)	Huicheng District, Huizhou	Residential & commercial	146,000	520,000	357,000	60%	Planning works for Phase 3 (approx. GFA of 96,000 sq m) in progress	Phase 3 2025/2026
The Lake (Foshan) 山語湖 (佛山)	Nanhai District, Foshan	Residential & commercial	4,021,000	1,600,000	967,000	50%	Planning and design for Phase 5 (approx. GFA of 83,000 sq m) in progress	Phase 5 2024/2025
Le Cove City (Wuxi) 江灣城 (無錫)	Liangxi District, Wuxi	Residential & commercial	69,000	365,000	111,000	100%	Superstructure works for Phase 3 (approx. GFA of 73,000 sq m) and 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	435,000	49%	Superstructure works for office tower of Phase 3A (approx. GFA of 60,000 sq m) in progress Foundation works for Phase 3B (approx. GFA of 280,000 sq m) in progress	Phase 3A 2023 Phase 3B 2025
Yangpu (Shanghai) 楊浦 (上海)	Yangpu District, Shanghai	Residential & commercial office	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	Phase 1A 2026
Hengda Guangchang (Zhuhai) 亨達廣場 (珠海)	Xiangzhou District, Zhuhai	Commercial, office & hotel apartment	38,000	194,000	—	70%	Foundation works for Phase 1 (approx. GFA of 62,000 sq m) in progress	Phase 1 2025/2026

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

Note: A property project in Hong Kong, namely Manor Hill, was completed during the year under review.

Property Investment

While gross rental income generated from the Group's investment property portfolio in Hong Kong for the year ended 31 December 2022 fell slightly to HK\$301 million from HK\$303 million in 2021, a decrease of 0.7%, it is encouraging that overall occupancy rate of the portfolio has been gradually improving during the year under review.

Financial Investments

For the year ended 31 December 2022, total interest income and dividend income generated from the Group's financial investment activities rose to HK\$159 million from HK\$99 million in 2021, an increase of 60.6%.

PROSPECTS

Given that the coronavirus, which has been ravaging the whole world for three years, has become much milder, almost all countries around the world have fully resumed cross-border travel and life gradually returns to normal. Mainland China and Hong Kong have re-opened their borders to the outside world, helping to revitalise the Hong Kong economy, and its property market. In addition, China sets its GDP growth target at around 5% for 2023 and it is expected to launch further measures to support the property market and boost the economy.

It is expected that the inflation rate in the US will moderate by the end of 2023 or early 2024, with interest rates likely to peak and starting to fall, which would have favourable influence on the Hong Kong economy and its property market.

In Hong Kong, the Group's wholly-owned residential development project in Tseung Kwan O, namely Manor Hill, was completed last year and the Group will focus on promoting the sale of its approximately 1,000 unsold residential units in 2023.

The foundation works for the Group's 60%-owned residential and commercial development project on High Street in Sai Ying Pun (Hong Kong) are well underway. It is expected that the presale will likely be launched in the third quarter of 2023 at the earliest.

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 foundation and geotechnical works are well underway. The site is favourably located and will be seamlessly connected to the MTR Choi Hung Station. The Group intends to develop it into a residential and commercial complex, being the Group's sizeable flagship project in the community of the Kowloon East district, comprising five high-end modern high-rise residential blocks over a shopping mall offering a one-stop destination with shopping, dining and entertainment.

In Mainland China, the planning works for the Phase 3 residential development of Le Cove Garden in Huizhou are in the final stage and the construction is expected to commence later this year.

In Shenyang, the foundation works for the Phase 5 development of Le Cove City are in progress.

In Wuxi, the superstructure works for both Phase 3 and Phase 4 developments of Le Cove City are in progress which are expected to be completed in 2023 and 2024 respectively.

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 during the year. The planning and design for the Phase 5 development of The Lake was commenced. With regard to City Plaza, the superstructure works for the office tower of the Phase 3A development are underway and the Phase 3A development is expected to be completed in 2023 while the foundation works for the Phase 3B development are in progress.

In Shanghai, the foundation works for the Group's redevelopment project will be started in the next few months.

In Jiexiu, Shanxi, the foundation works for the Phase 1A development of the Group were completed.

In Zhuhai, the foundation works for the Phase 1 development of Hengda Guangchang are expected to be completed in the first half of 2023 and the superstructure works will be commenced in the second half of 2023.

Despite the decline in property prices in Mainland China and Hong Kong over the past year, the Group's overall development landbank still possesses important competitive advantages over the current market prices.

Barring unforeseen circumstances, the Group's development projects in Hong Kong, namely Manor Hill (completed) and the Clear Water Bay Road project (under construction), will contribute considerably to the Group's earnings in the coming years.

I would like to express my sincere gratitude to my fellow Directors for their valuable advice and strong support during the year as well as all of our staff for their hard work and dedication.

CONSOLIDATED RESULTS

The consolidated results of the Group for the year ended 31 December 2022 together with the comparative figures of 2021 are as follows:

Consolidated Income Statement for the year ended 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
Revenue	3	4,581,905	2,050,388
Cost of sales		(1,644,255)	(533,028)
Other revenue		60,601	74,930
Other net expenses	4(a)	(457,522)	(979,034)
Depreciation and amortisation		(21,464)	(22,837)
Staff costs		(614,251)	(595,016)
Selling, marketing and distribution expenses		(188,302)	(145,716)
Other operating expenses		(130,117)	(96,281)
Fair value changes on investment properties		200,333	2,585,549
Fair value changes on interests in property development		420	58,259
Profit from operations		1,787,348	2,397,214
Finance costs	4(b)	(96,309)	(41,825)
Share of losses of associated companies		(56,048)	(7,946)
Share of profits/(losses) of joint ventures		11,688	(12,177)
Profit before taxation	4	1,646,679	2,335,266
Income tax	5	(436,803)	(125,212)
Profit for the year		1,209,876	2,210,054
Attributable to :			
Shareholders of the Company		1,214,934	2,209,081
Non-controlling interests		(5,058)	973
Profit for the year		1,209,876	2,210,054
Earnings per share			
Basic and Diluted	6	HK\$1.03	HK\$1.88

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit for the year	<u>1,209,876</u>	<u>2,210,054</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	(430,524)	129,515
Share of other comprehensive income of joint ventures and associated companies	<u>(340,190)</u>	<u>99,744</u>
	<u>(770,714)</u>	<u>229,259</u>
Total comprehensive income for the year	<u>439,162</u>	<u>2,439,313</u>
Attributable to:		
Shareholders of the Company	449,101	2,436,433
Non-controlling interests	<u>(9,939)</u>	<u>2,880</u>
Total comprehensive income for the year	<u>439,162</u>	<u>2,439,313</u>

Consolidated Statement of Financial Position

At 31 December 2022

		2022		2021	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Investment properties			13,618,270		13,479,600
Property, plant and equipment			252,609		272,092
Interests in property development	8		1,997,849		1,870,030
Interest in joint ventures			1,954,153		2,111,642
Interest in associated companies			1,294,496		1,486,033
Other financial assets			285,794		445,036
Trade and other receivables	9		112,133		77,018
Loans and advances	9		244,002		373,030
Deferred tax assets			36,569		49,665
			<u>19,795,875</u>		<u>20,164,146</u>
Current assets					
Inventories		25,549,725		26,041,755	
Interests in property development	8	689,201		–	
Trade and other receivables	9	691,303		674,711	
Loans and advances	9	18,617		13,699	
Other financial assets		43,610		66,892	
Amount due from a joint venture		112,883		112,883	
Cash and bank balances		864,590		1,043,140	
			<u>27,969,929</u>		<u>27,953,080</u>

Consolidated Statement of Financial Position *(continued)*
At 31 December 2022

		2022		2021	
	<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	10	3,692,787		11,720,094	
Amount due to a joint venture		560,374		491,071	
Loan from an associated company		44,353		48,458	
Bank loans		14,488,973		2,053,727	
Current taxation		404,345		315,538	
		<u>19,190,832</u>		<u>14,628,888</u>	
Net current assets			<u>8,779,097</u>		<u>13,324,192</u>
Total assets less current liabilities			<u>28,574,972</u>		<u>33,488,338</u>
Non-current liabilities					
Loan from a related company		2,090,754		1,199,073	
Bank loans		7,371,180		12,648,339	
Deferred tax liabilities		577,339		566,492	
			<u>10,039,273</u>		<u>14,413,904</u>
NET ASSETS			<u><u>18,535,699</u></u>		<u><u>19,074,434</u></u>
Capital and reserves					
Share capital		8,636,490		8,636,490	
Reserves		9,789,095		10,316,598	
Total equity attributable to the shareholders of the Company			<u>18,425,585</u>		<u>18,953,088</u>
Non-controlling interests			<u>110,114</u>		<u>121,346</u>
TOTAL EQUITY			<u><u>18,535,699</u></u>		<u><u>19,074,434</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 2022 and 2021 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 2021 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 2022 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.

- Amendments to HKAS 16, “Property, plant and equipment: Proceeds before intended use”
- Amendments to HKAS 37, “Provisions, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract”

None of these developments 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.

- Property development segment (Hong Kong/Mainland China): 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 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, financial investments, the provision of finance services and treasury operations.

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

Reportable segment profit represents profit before taxation by excluding fair value changes on interests 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.

	2022				
	Total	Property development			Others (Remark 1)
Hong Kong		Mainland China	Property investment	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4,581,905	3,234,792	275,449	300,681	770,983
Reportable segment profit/(loss)	1,605,355	1,671,309	(263,380)	223,878	(26,452)
Fair value changes on investment properties	200,333	–	–	200,333	–
Fair value changes on interests in property development	420	–	420	–	–
Head office and corporate expenses	(63,120)				
Finance costs	(96,309)				
Profit before taxation	1,646,679				
Share of losses of associated companies	(56,048)	–	(55,095)	–	(953)
Share of profits of joint ventures	11,688	–	11,688	–	–
Interest income	187,743	–	–	–	187,743
Depreciation and amortisation	(21,464)	–	–	–	(21,464)

Remark 1:

Others included revenue from property management services and financial investments of HK\$459,061,000 and HK\$158,761,000 (2021: HK\$409,041,000 and HK\$98,794,000) respectively and the relevant segment profit/(loss) of HK\$32,286,000 and (HK\$80,226,000) (2021: HK\$4,278,000 and (HK\$970,138,000)) respectively.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2021					
	Total	Property development			Property investment	Others (Remark 1)
		Hong Kong	Mainland China			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue	<u>2,050,388</u>	<u>465,844</u>	<u>609,842</u>	<u>302,979</u>	<u>671,723</u>	
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	<u>(41,825)</u>					
Profit before taxation	<u>2,335,266</u>					
Share of losses of associated companies	(7,946)	–	(7,359)	–	(587)	
Share of losses of joint ventures	(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 interests 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.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

	2022				
	Property development				
	Total	Hong Kong	Mainland China	Property investment	Others (Remark 2)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	46,773,407	15,551,966	16,592,004	13,637,350	992,087
Deferred tax assets	36,569				
Cash and bank balances	864,590				
Head office and corporate assets	91,238				
Total assets	47,765,804				
Interest in associated companies	1,294,496	–	1,294,496	–	–
Interest in and amount due from joint ventures	2,067,036	–	2,067,036	–	–
			2021		
	Property development				
	Total	Hong Kong	Mainland China	Property investment	Others (Remark 2)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Reportable segment assets	46,935,391	16,267,554	15,878,554	13,496,872
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 joint ventures	2,224,525	–	2,224,525	–	–

Remark 2:

Others included reportable segment assets of property management services and financial investments amounting to HK\$123,351,000 and HK\$329,404,000 (2021: HK\$106,439,000 and HK\$511,928,000) respectively.

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	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	4,143,297	1,331,372	13,868,134	13,749,289
Mainland China	281,078	621,097	3,251,394	3,600,078
Others	157,530	97,919	–	–
	<u>4,581,905</u>	<u>2,050,388</u>	<u>17,119,528</u>	<u>17,349,367</u>

In addition to the above non-current assets, the Group has interests in property development of HK\$1,997,849,000 (2021: HK\$1,870,030,000) in Mainland China.

4 Profit before taxation

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

(a) Other net expenses

Other net expenses mainly represent impairment and fair value losses on other financial assets of HK\$92,540,000 (2021: HK\$1,076,700,000), write down of inventories of HK\$206,369,000 (2021: Nil) and remeasurement loss on debt securities of HK\$149,564,000 (2021: Nil), offset by the write back of construction cost accrual of Nil (2021: HK\$95,169,000).

(b) Finance costs

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans	542,710	249,294
Interest on loan from a related company	59,827	9,197
Less: Amount capitalised	<u>(506,228)</u>	<u>(216,666)</u>
	<u>96,309</u>	<u>41,825</u>

(c) Other items

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation and amortisation	21,464	22,837
Interest income	(187,743)	(139,674)
Staff costs	614,251	595,016
Total staff costs	633,306	622,664
Less: Amount capitalised	(19,055)	(27,648)

5 Income tax

Taxation in the consolidated income statement represents:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
Provision for profits tax		
– Hong Kong	312,034	78,504
– Outside Hong Kong	48,038	9,748
	<u>360,072</u>	<u>88,252</u>
Land appreciation tax (“LAT”)	32,919	18,926
Deferred tax	43,812	18,034
	<u>436,803</u>	<u>125,212</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (2021: 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 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK\$1,214,934,000 (2021: HK\$2,209,081,000) and the weighted average number of ordinary shares in issue during the year of 1,176,631,296 (2021: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2022 and 2021.

7 Dividends

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid of HK\$0.26 (2021: HK\$0.25) per share	305,924	294,158
Final dividend proposed after the end of the reporting period of HK\$0.57 (2021: HK\$0.57) per share	<u>670,680</u>	<u>670,680</u>
	<u><u>976,604</u></u>	<u><u>964,838</u></u>

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

8 Interests in property development

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	1,870,030	1,811,771
Distribution	–	(220,000)
Change in fair value recognised in profit or loss	420	278,259
Net changes in fair value	420	58,259
Addition through acquisition of a subsidiary during the year	816,600	–
At 31 December	2,687,050	1,870,030
Representing:		
Non-current assets	1,997,849	1,870,030
Current assets	689,201	–
	2,687,050	1,870,030

Interests in property development represent the Group's interests in the development of various properties located at Huizhou and Zhuhai in Mainland China under co-investment agreements with a related company, Polytec Holdings International Limited ("Polytec Holdings"). Details of the funding arrangements and other key terms of the co-investment agreements were disclosed in the Company's Circulars dated 30 October 2013 and 29 June 2022. Interests 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 and recognised in profit or loss. No distribution was made by Polytec Holdings during the year ended 31 December 2022.

9 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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	539,286	582,432
Within 3 months	46,819	40,060
3 months to 6 months	5,875	5,230
More than 6 months	16,113	11,930
	<hr/>	<hr/>
Trade receivables and loans and advances	608,093	639,652
Utility and other deposits	14,825	19,068
Prepaid tax	102,770	92,610
Other receivables and prepayments	340,367	387,128
	<hr/>	<hr/>
	1,066,055	1,138,458
	<hr/> <hr/>	<hr/> <hr/>
Representing:		
Non-current assets	356,135	450,048
Current assets	709,920	688,410
	<hr/>	<hr/>
	1,066,055	1,138,458
	<hr/> <hr/>	<hr/> <hr/>

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

10 Trade and other payables

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due or on demand	2,249,483	10,897,687
Within 3 months	6,397	8,384
3 months to 6 months	121	40
More than 6 months	43	–
	<hr/>	<hr/>
Trade payables	2,256,044	10,906,111
Rental and other deposits	73,351	73,712
Other payables and accrued expenses	641,181	295,071
Contract liabilities – deposits received on sale of properties	722,211	445,200
	<hr/>	<hr/>
	3,692,787	11,720,094
	<hr/> <hr/>	<hr/> <hr/>

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK\$21,860 million as at 31 December 2022 (31 December 2021: HK\$14,702 million), comprising of HK\$14,489 million repayable within one year (which includes a bridging loan of HK\$9,658 million for settlement of the land premium of the Clear Water Bay Road project located in Ngau Chi Wan (Hong Kong) to be refinanced by a long-term project loan shortly) and HK\$7,371 million repayable after one year. Taking into account of cash and bank balances with an amount of HK\$865 million, the Group's net bank borrowings position was HK\$20,995 million as at 31 December 2022. Loan from a related company amounted to HK\$2,091 million as at 31 December 2022.

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 125.3% as at 31 December 2022 (31 December 2021: 78.4%). The significant increase of gearing ratio during the year is mainly due to the settlement of the land premium of HK\$9,658 million in respect of the acceptance of the land exchange offer for the Clear Water Bay Road project. Following with the launch of sale for the unsold units of Manor Hill, Hong Kong and presale of Le Cove City, Wuxi in Mainland China, we expected that gearing ratio will be gradually improved in the coming quarters.

During the year, presales/sales for the property projects in Hong Kong contributed cash inflows of approximately HK\$2,890 million to the Group, mainly from Manor Hill. Furthermore, the Group recorded approximately HK\$815 million cash inflows mainly from presales/sales of various development projects in Mainland China.

On 20 May 2022, the Group has entered into an agreement with Polytec Holdings International Limited, a related company of the Company, for the acquisition of the entire issued share capital in the company holding 70% interest in a property development project in Zhuhai at a consideration of HK\$817 million. The acquisition has been approved by independent shareholders and completed in late July 2022.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK\$1,852 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.

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 2022, the Group had commitments mainly in connection with the Group's investment properties amounting to HK\$27 million.

Pledge of assets

As at 31 December 2022, properties having a value of HK\$12,951 million and deposits of HK\$18 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 2022, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK\$30 million.

HUMAN RESOURCES

As at 31 December 2022, the Group had a total of 2,668 employees (2021: 2,854 employees), of which 2,533 were Hong Kong staff and 135 were Mainland China staff. During the year, total staff costs increased to HK\$633 million (2021: HK\$623 million) due to salary revisions in July 2022. 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 2022 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 2022 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 2022 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 Part 2 of 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 C.2.1 as explained below:

Code Provision C.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 2022.

2023 AGM

The 2023 AGM of the Company will be held on Wednesday, 7 June 2023. The Notice of the 2023 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 2023 AGM, the Register of Members of the Company will be closed from Friday, 2 June 2023 to Wednesday, 7 June 2023, 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 2023 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, 1 June 2023.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Monday, 19 June 2023 to Tuesday, 20 June 2023, 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 Friday, 16 June 2023.

Publication of Annual Report

The Annual Report 2022 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 2023.

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

Hong Kong, 29 March 2023

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 David John Shaw and Mr Hsu Duff Karman as Independent Non-executive Directors.