九龍建業有限公司

KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

2019 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2019, the Group's unaudited net profit attributable to shareholders of the Company rose substantially to HK$1,851 million from HK$1,059 million in the corresponding period of 2018, an increase of 74.8%.
- Excluding revaluation gains 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 the first half of 2019 rose significantly to HK$1,390 million from HK$441 million in the same period of 2018, an increase of 215%. The underlying net interim earnings per share for 2019 were HK$1.18 compared to HK$0.38 for 2018.
- The significant increase in the underlying net profit for the first half of 2019 was mainly due to the recognition of sales from Upper East, the Group's wholly-owned development project in Hong Kong, with approximately 97% of residential units being sold.
- Interim dividend per share for 2019 amounts to HK$0.24 (2018: HK$0.22).

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2019, the Group's unaudited net profit attributable to shareholders of the Company rose substantially to HK$1,851 million from HK$1,059 million in the corresponding period of 2018, an increase of 74.8%. The interim earnings per share for 2019 amounted to HK$1.57 compared to HK$0.90 for the same period in 2018.

Excluding revaluation gains 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 the first half of 2019 rose significantly to HK$1,390 million from HK$441 million in the same period of 2018, an increase of 215%. The underlying net interim earnings per share for 2019 were HK$1.18 compared to HK$0.38 for 2018.

The Board of Directors has declared an interim dividend of HK$0.24 (2018: HK$0.22) per share for 2019. The interim dividend will be payable on Wednesday, 11 December 2019 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 26 November 2019.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, overall housing activity in the residential property market has picked up, with the primary residential transaction volume rising considerably in the first half of 2019.

In Mainland China, overall property market remained stable in the first half of 2019. However, housing activities appeared to be varied across cities, with transaction volume rising considerably in some cities while transaction volume in other cities showing either signs of stabilisation or slowdown.

In Macau, overall economy appeared to be contracting slightly in the first half of 2019. Together with escalating China-US trade dispute and economic slowdown in China, the purchasing desire of investors or home buyers has significantly been affected, increasingly adopting a wait-and-see attitude. As a result, overall residential transaction volume fell considerably in the first six months of 2019 compared to the same period last year.

Development Property Sales

In Hong Kong, the Group has been focusing on promoting the presale of One East Coast in Lei Yue Mun in the first six months of 2019 and the project has been well received by the market, with over 80% of residential units being sold so far and accumulated presale proceeds of exceeding HK$3 billion being recorded as of end-June 2019.

In Mainland China, the Group had no major new development projects for presale or sale in the first half of 2019. In view of the weakening retail market and change of development plan in Shenyang, a total of HK$349 million impairment provisions was made for the period under review, largely for the commercial portion of The Gardenia, the Group's wholly-owned development project in Shenyang.

In Macau, in respect of the La Marina development project, despite overall transaction volume in the residential market falling substantially in the first half of 2019, the sale of the project continued to be well received by the market, with outstanding sales being achieved, largely due to its excellent transportation network, outstanding design and quality as well as the brand effect.

In respect of the Pearl Horizon development project, the claim submitted by Polytex Corporation Limited to the Court of Macau on 29 November 2018 to seek compensations from the Macau Government for related losses and damages is still in progress. In case the above mentioned claim and all other possible approaches failed to protect the Group's interests, Polytec Holdings International Limited, a related company of the Group, is committed to indemnifying related losses incurred by the Group for the Pearl Horizon development project. Therefore, there should not be any adverse effects on the financial position of the Group due to the repossession of the development land by the Macau Government.

Property Development

As of 30 June 2019, the Group's landbank for development amounted to approximately 3.7 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	12,200	—	100%	Construction works in progress	End-2019
One East Coast	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	—	100%	Occupation Permit obtained	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	—	100%	Foundation 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
Mainland China								
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	313,812	100%	Advance building works for Phase 5 to commence soon	Phase 5 2022
The Gardenia (Shenyang) 翠堤灣（瀋陽）	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	431,473	100%	Construction works for Phase 3A (North Block) in progress; construction works for Phase 3A (South Block) to commence soon	Phase 3A (North Block) 2019; Phase 3A (South Block) 2021
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）#	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	207,768	60%	Construction works for Phase 2 in progress; planning application for Phase 3 development in progress	Phase 2 2021; Phase 3 2023

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								
The Lake (Foshan) 山語湖 （佛山）	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	846,098	50%	Planning application for Phase 3 development in progress	Phase 3 to be determined
Le Cove City (Wuxi) 江灣城 （無錫）	Chong An District, Wuxi	Residential & commercial	68,833	365,000	109,367	100%	Obtained planning approval for Phase 3 and Phase 4 and now preparing for foundation works	Phase 3 and Phase 4 2023
City Plaza (Tianjin) 城市廣場 （天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000	238,874	49%	Obtained planning approval for Phase 3A and foundation works in progress; Phase 3B under planning	Phase 3A 2023
Shanghai (Shanghai)	Yangpu District, Shanghai	Residential & commercial	21,427	113,600△	—	100%	Site clearance in progress	2023/2024
Zhongshan (Zhongshan)	South District, Zhongshan	Residential & commercial	234,802	587,000	—	35.4%	Site clearance completed	2021-2023
Zhuhai (Zhuhai)⊕	Xiangzhou District, Zhuhai	Commercial office	43,656	179,000	—	42.5%	Under planning	2023/2024

※ Approx. total GFA booked and recognised in the financial statements.
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.
⊕ The acquisition to be completed within 2019.

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2019 amounted to HK$179 million, an increase of 1.7% over the corresponding period in 2018. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose slightly to HK$154 million for the first half of 2019 from HK$152 million for the same period of 2018. Overall occupancy rate for the office and retail spaces remained high at over 99% as of end-June 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 and the ice manufacturing and cold storage business are through Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau

For the period under review, the Group's share of gross rental income generated from its investment properties fell slightly to HK$29.3 million. The rental income was mainly generated from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group amounted to HK$27.1 million for the first half of 2019 as compared to HK$28.0 million for the same period in 2018.

Oil

The oil segment recorded an operating loss of HK$10.3 million for the six months ended 30 June 2019, compared to a loss of HK$8.7 million over the same period in 2018. The increase in operating loss was mainly due to the drop in oil prices and sales volume during the period under review when compared to the first half of 2018.

Ice Manufacturing and Cold Storage

For the period under review, the total operating profit for the ice manufacturing and cold storage segment amounted to HK$8.4 million, a decrease of 12% over the corresponding period in 2018. The decline in operating profit was attributable to the decrease in revenue from the ice manufacturing business.

EVENT AFTER THE REPORTING PERIOD

As announced on 9 August 2019, the Group acquired additional 7.9% of the equity interests in Easy Living Consultant Limited ("Easy Living", formerly an associated company of the Company which is principally engaged in the provision of building surveying, property management and guarding services) at the total consideration of HK$5,214,000 from three independent third parties. Following the completion of the acquisition on 9 August 2019, the Group now holds 56.9% of the equity interest in Easy Living, which has become a subsidiary of the Company.

PROSPECTS

The Group has delivered exceptional interim results for 2019, with the underlying net profit rising significantly by over 200% compared to the same period in 2018. This substantial increase in the underlying net profit was mainly due to the recognition of sales from Upper East, its newly completed large scale development project (with over 1,000 residential units) in Hong Kong, with approximately 97% of residential units being sold as of end-June 2019.

With the Group's continuing endeavour to deliver best-quality products to its buyers, its relentless efforts have recently been recognised by the market, with its newly completed Upper East being awarded "Five Stars Residency for the Year 2019" by the Hong Kong Professional Building Inspection Academy.

The demolishing work and overall planning of the Group's newly acquired redevelopment project in Shanghai are in progress following the completion of the relocation work.

With respect to the Group's other two new property redevelopment projects in Zhongshan and Zhuhai, which the Group has exposure through Polytec Asset, the acquisition of the Zhongshan project has been completed and following the completion of the site clearance work, the drainage work for the Zhongshan project is in progress and overall planning carried out by a professional design house is also well underway. The completion of the acquisition of the Zhuhai project is expected by the end of 2019. If the above two redevelopment projects progress well, Polytec Asset will further increase its investment and extend its development footprint in the Greater Bay Area.

In Macau, despite weakening overall sentiment in the property market in the first half of 2019, La Marina, which Polytec Asset holds 80% of interest, recorded outstanding sales, with the project being ranked the bestselling project in Macau for the period under review. This achievement can be attributable to the remarkable products with thoughtful designs, which are well received by the market. While the property market is expected to remain stable in the second half of 2019, the Group is still optimistic about the sales of La Marina.

Looking ahead, the Group's main source of income for the second half of 2019 will likely come from the recognition of sales from One East Coast in Lei Yue Mun, the Group's wholly-owned development project in Hong Kong, with over 80% of residential units being sold and total presale proceeds of exceeding HK$3 billion being recorded so far. The Group expects to obtain the Certificate of Compliance in late third quarter of 2019 and will then gradually deliver the sold residential units to purchasers. In addition, the Group expects income to be received from its interest in the La Marina development project in Macau. The rental income from its investment properties in Hong Kong and Macau is expected to generate stable income for the Group. In view of a slowing global economy and hence weakening oil demand, the Group will evaluate the oil business in Kazakhstan and will make appropriate provisions on its oil assets if necessary.

The Group is now closely monitoring the developments in the China-US trade dispute, social unrest arising from the anti-extradition bill movement in Hong Kong, as well as the potentially slowing global economy (including China's) and all other factors, and assessing their impacts on its respective property markets which it has exposure and it will make necessary adjustments to its strategies in time to ensure that the Group's businesses are being safeguarded.

The Group's earnings for the second half of 2019 have basically been secured, albeit prevailing uncertainties. Therefore, barring unforeseen circumstances, it is expected that the Group will record decent growth in its annual underlying earnings for 2019.

I would like to take this opportunity to thank, on behalf of the Board, all our staff for their hard work and dedication as well as express my gratitude to my fellow Directors for their guidance and valuable advice.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2019 together with the comparative figures for 2018 are as follows:

Consolidated Income Statement

		Six months ended 30 June	
		2019	2018
	Note	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**5,664,767**	705,627
Cost of sales		**(3,145,305)**	(229,434)
Other revenue		**20,255**	10,549
Other net expenses	*4*	**(348,979)**	-
Depreciation and amortisation		**(11,455)**	(7,874)
Staff costs		**(99,489)**	(96,598)
Selling, marketing and distribution expenses		**(207,329)**	(46,808)
Other operating expenses		**(33,245)**	(36,933)
Fair value changes on investment properties		**100,281**	291,582
Fair value changes on interests in property development		**497,288**	447,354
Profit from operations		**2,436,789**	1,037,465
Finance costs	*5*	**(134,298)**	(89,527)
Share of profits of associated companies		**6,482**	68,556
Share of profits of joint ventures		**24,441**	250,999
Profit before taxation		**2,333,414**	1,267,493
Income tax	*6*	**(273,248)**	(34,532)
Profit for the period		**2,060,166**	1,232,961
Attributable to :			
Shareholders of the Company		**1,850,631**	1,059,462
Non-controlling interests		**209,535**	173,499
Profit for the period		**2,060,166**	1,232,961
Earnings per share – Basic and diluted	*7*	**HK$1.57**	HK$0.90

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**2,060,166**	1,232,961
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(15,036)**	(30,173)
Share of other comprehensive income of joint ventures and associated companies	**(16,510)**	(38,799)
	(31,546)	(68,972)
Total comprehensive income for the period	**2,028,620**	1,163,989
Attributable to :		
Shareholders of the Company	**1,821,006**	991,057
Non-controlling interests	**207,614**	172,932
Total comprehensive income for the period	**2,028,620**	1,163,989

Consolidated Statement of Financial Position

	Note		**At 30 June 2019** *HK$'000* *(unaudited)*		At 31 December 2018 *HK$'000* *(audited)*
Non-current assets					
Investment properties			**10,729,450**		10,607,850
Property, plant and equipment	*9*		**752,160**		767,118
Oil exploitation assets	*9*		**27,212**		27,516
Interests in property development	*10*		**13,023,438**		12,966,296
Interest in joint ventures			**4,533,687**		4,533,371
Interest in associated companies			**1,620,526**		1,680,459
Loans and advances	*11*		**623,576**		818,470
Deferred tax assets			**96,144**		125,794
			31,406,193		31,526,874
Current assets					
Inventories		**17,325,563**		20,015,325	
Interests in property development	*10*	**1,311,804**		871,658	
Trade and other receivables	*11*	**1,259,380**		1,130,952	
Loans and advances	*11*	**18,789**		25,014	
Amounts due from related companies		**220,000**		1,480,000	
Amounts due from joint ventures		**309,959**		301,926	
Pledged bank deposits		**753,920**		1,042,161	
Cash and bank balances		**1,098,286**		1,068,348	
		22,297,701		25,935,384	

	Note	At 30 June 2019 HK$'000 (unaudited)		At 31 December 2018 HK$'000 (audited)	
Current liabilities					
Trade and other payables	*12*	**5,373,482**		6,401,167	
Amount due to a joint venture		**706,521**		709,312	
Loan from an associated company		**45,040**		45,218	
Bank loans		**3,569,500**		6,825,941	
Current taxation		**477,196**		176,819	
		10,171,739		14,158,457	
Net current assets			**12,125,962**		11,776,927
Total assets less current liabilities			**43,532,155**		43,303,801
Non-current liabilities					
Loan from a related company		**3,390,206**		4,274,519	
Bank loans		**8,325,140**		8,455,488	
Other payables		**17,619**		17,450	
Deferred tax liabilities		**643,344**		730,970	
			12,376,309		13,478,427
NET ASSETS			**31,155,846**		29,825,374
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**18,272,391**		17,039,701
Total equity attributable to the shareholders of the Company			**26,908,881**		25,676,191
Non-controlling interests			**4,246,965**		4,149,183
TOTAL EQUITY			**31,155,846**		29,825,374

Notes

1 Basis of preparation

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The financial information relating to the financial year ended 31 December 2018 that is included in this announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year 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 as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Changes in accounting policies

The HKICPA has issued a new Hong Kong Financial Reporting Standard ("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.

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 provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

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

Reportable 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)*

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 period is set out below.

Six months ended 30 June 2019

		Property development					
	Consolidated *HK$'000*	**Hong Kong** *HK$'000*	**Mainland China** *HK$'000*	**Macau** *HK$'000*	**Property investment** *HK$'000*	**Oil** *HK$'000*	**Others** *HK$'000*
Revenue	**5,664,767**	**4,685,558**	**445,025**	**220,000**	**178,875**	**26,183**	**109,126**
Reportable segment profit	**2,265,336**	**1,771,504**	**19,637**	**222,997**	**197,057**	**(10,343)**	**64,484**
Other net expenses	**(348,979)**	**–**	**(348,979)**	**–**	**–**	**–**	**–**
Fair value changes on investment properties	**100,281**	**–**	**–**	**–**	**100,281**	**–**	**–**
Fair value changes on interests in property development	**497,288**	**–**	**5,579**	**491,709**	**–**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**9,240**	**–**	**–**	**–**	**9,240**	**–**	**–**
Head office and corporate expenses	**(55,454)**						
Finance costs	**(134,298)**						
Profit before taxation	**2,333,414**						
Share of profits of associated companies	**6,482**	**–**	**4,862**	**–**	**–**	**–**	**1,620**
Share of profits of joint ventures	**24,441**	**–**	**(18,880)**	**–**	**43,321**	**–**	**–**
Write down of inventories	**(348,979)**	**–**	**(348,979)**	**–**	**–**	**–**	**–**

Six months ended 30 June 2018

		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
Revenue	705,627	27,692	185,461	180,000	175,815	36,584	100,075
Reportable segment profit	660,932	(16,165)	252,321	183,307	201,136	(8,664)	48,997
Fair value changes on investment properties	291,582	–	–	–	291,582	–	–
Fair value changes on interests in property development	447,354	–	201	447,153	–	–	–
Share of fair value changes on investment properties of a joint venture	17,600	–	–	–	17,600	–	–
Head office and corporate expenses	(60,448)						
Finance costs	(89,527)						
Profit before taxation	1,267,493						
Share of profits of associated companies	68,556	–	69,606	–	–	–	(1,050)
Share of profits of joint ventures	250,999	–	201,489	–	49,510	–	–

3 Segment reporting *(continued)*

	At 30 June 2019						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
Reportable segment assets	**51,617,583**	**8,807,190**	**16,223,975**	**12,797,468**	**12,535,356**	**339,644**	**913,950**
Deferred tax assets	**96,144**						
Pledged bank deposits	**753,920**						
Cash and bank balances	**1,098,286**						
Head office and corporate assets	**137,961**						
Consolidated total assets	**53,703,894**						
Interest in associated companies	**1,620,526**	**–**	**1,586,233**	**–**	**–**	**–**	**34,293**
Interest in and amounts due from joint ventures	**4,843,646**	**–**	**3,301,442**	**–**	**1,542,204**	**–**	**–**

	At 31 December 2018						
		Property development					
	Consolidated *HK$'000*	Hong Kong *HK$'000*	Mainland China *HK$'000*	Macau *HK$'000*	Property investment *HK$'000*	Oil *HK$'000*	Others *HK$'000*
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	–	–

4 Other net expenses

Other net expenses mainly represent the write down of inventories of HK$348,979,000 (six months ended 30 June 2018: Nil).

5 Finance costs

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**202,098**	151,932
Interest on loan from a related company/ultimate holding company	**40,777**	10,342
Less : Amount capitalised	**(108,577)**	(72,747)
	134,298	89,527

6 Income tax

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current tax		
Provision for Profits Tax		
– Hong Kong	**327,335**	21,779
– Outside Hong Kong	**1,416**	1,477
	328,751	23,256
Land appreciation tax ("LAT")	**1,610**	3,190
Deferred tax	**(57,113)**	8,086
	273,248	34,532

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2018 : 16.5%) of the estimated assessable profits for the six months ended 30 June 2019. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in the 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 cost of land use rights, borrowings costs and all property development expenditure.

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 of HK$1,850,631,000 (six months ended 30 June 2018: HK$1,059,462,000) and the weighted average number of ordinary shares in issue during the period of 1,176,631,296 (six months ended 30 June 2018: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2019 and 2018.

8 Dividends

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Cash dividend:		
Interim dividend declared after the interim period of HK$0.24 (six months ended 30 June 2018: HK$0.22) per share	282,392	258,859
Special dividend by way of distribution in specie declared after the interim period (Remark)	-	81,188
	282,392	340,047

Remark: On 22 August 2018, the Board declared a special dividend to be satisfied by way of distribution of specie of share in Polytec Asset Holdings Limited ("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 HK$81,188,000 were recognised as distribution during 2018, which represented a distribution of approximately HK$0.069 per share of the Company.

The interim dividend declared after the interim period has not been recognised as a liability at the interim period end date.

9 Oil production assets and oil exploitation assets

As at 30 June 2019, the Group had oil production assets of HK$287,241,000 (31 December 2018: HK$295,191,000) (included in property, plant and equipment) and oil exploitation assets of HK$27,212,000 (31 December 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 to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of PAH (70.8% owned by the Group), in Kazakhstan was expired on 31 December 2018. During the period under review, Caspi Neft TME maintained a minimum production and also renewed the gas flaring permit which will expire on 30 September 2019.

Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 30 September 2019 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on the above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2019, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No impairment loss is considered necessary for the six months ended 30 June 2019. The recoverable amounts of oil production and exploitation assets were determined based on value in use calculations applying a discount rate of 12.5% (31 December 2018: 12.5%).

10 Interests in property development

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**13,837,954**	13,663,454
Distributions	**(220,000)**	(1,660,000)
Change in fair value recognised in profit or loss	**717,288**	1,834,500
Net changes in fair value	**497,288**	174,500
At 30 June/31 December	**14,335,242**	13,837,954
Representing:		
Non-current assets	**13,023,438**	12,966,296
Current assets	**1,311,804**	871,658
	14,335,242	13,837,954

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 were 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 land use was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ending on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but was declined by the relevant department of the Macau SAR Government.

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.

10 Interests in property development *(continued)*

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 incompletion 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 30 June 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 period ended 30 June 2019, pursuant to the co-investment agreement, distribution of HK$220,000,000 (six months ended 30 June 2018: HK$180,000,000) was made by a wholly owned subsidiary of Polytec Holdings, in relation to the property development project at Lotes T+T1. Income arising from interests in property development recognised in the consolidated income statement from the distribution during the period ended 30 June 2019 amounted to HK$220,000,000 (six months ended 30 June 2018: HK$180,000,000).

As at 30 June 2019, interests in property development of HK$1,311,804,000 (31 December 2018: HK$871,658,000) was expected to be recoverable within one year and was classified as current assets.

11 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 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Current	**1,217,670**	1,305,913
Within 3 months	**19,049**	15,139
3 months to 6 months	**2,287**	309
More than 6 months	**11,997**	16,510
Trade receivables and loans and advances	**1,251,003**	1,337,871
Utility and other deposits	**183,682**	184,737
Prepaid tax	**105,050**	99,790
Other receivables and prepayments	**362,010**	352,038
	1,901,745	1,974,436
Representing:		
Non-current assets	**623,576**	818,470
Current assets	**1,278,169**	1,155,966
	1,901,745	1,974,436

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.

As at 30 June 2019, included in utility and other deposits was a deposit of HK$161,095,000 (31 December 2018: 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 Holdings. In 2018, the Group has paid the deposit of HK$161,095,000 for the proposed acquisition through the loan from a related company. Details of the acquisition were disclosed in the announcement of the Company dated 22 June 2018.

12 Trade and other payables

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

	At 30 June 2019 *HK$'000*	At 31 December 2018 *HK$'000*
Not yet due or on demand	**1,508,072**	1,516,406
Within 3 months	**7,476**	14,914
3 months to 6 months	**-**	17
More than 6 months	**3**	3
Trade payables	**1,515,551**	1,531,340
Rental and other deposits	**79,982**	80,018
Other payables and accrued expenses	**223,072**	297,675
Contract liabilities - deposits received on sale of properties	**3,554,877**	4,492,134
	5,373,482	6,401,167

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$11,895 million as at 30 June 2019 (31 December 2018: HK$15,281 million), comprising of HK$3,570 million repayable within one year and HK$8,325 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,098 million, the Group's net bank borrowings position was HK$10,797 million as at 30 June 2019. Loan from a related company amounted to HK$3,390 million as at 30 June 2019.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from a related company less amounts due from related companies over equity attributable to shareholders of the Company) was 51.9% as at 30 June 2019 (31 December 2018: 66.2%).

During the period, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK$3,590 million to the Group. Furthermore, the Group has recorded of approximately HK$486 million cash inflows mainly from sales/presales of various development projects in Mainland China.

During the period, distribution of HK$220 million was 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$1,232 million for construction costs during the period.

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 30 June 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 30 June 2019, the Group had commitments in connection with the Group's investment properties amounting to HK$24 million.

Pledge of assets

As at 30 June 2019, properties having a value of HK$14,773 million and bank deposits of HK$754 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$904 million, representing a 50% proportional guarantee in respect of HK$1,808 million term loan facilities. The facilities were utilised to the extent of HK$307 million as at 30 June 2019.

OTHER INFORMATION

Review of Interim Results

The Audit Committee of the Company has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2019. The Group's independent auditor, KPMG, Certified Public Accountants, has conducted a review of the interim financial report in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Chartered Public Accountants.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2019, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of Code Provision A.2.1 as explained below:

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

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the Annual Report 2018.

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 six months ended 30 June 2019.

Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 25 November 2019 to Tuesday, 26 November 2019, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 pm (Hong Kong time) on Friday, 22 November 2019.

Publication of Interim Report

The Interim 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 September 2019.

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

Hong Kong, 21 August 2019

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.