interim report 中期報告 2019

九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

Kowloon Development Company Limited
九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) had been engaged in property investment and investment holding with the operation of its business mainly in Hong Kong since its establishment. It has substantially broadened the areas of its business activity since the Polytec group gained the control of it in 2002. The Group is principally engaged in investment holding, property development, property investment and property management in Hong Kong, Mainland China and Macau, with the exposure to property development in Macau having been through the Company's 70.8%-owned listed subsidiary, Polytec Asset Holdings Limited (Stock Code: 208). The Group is determinedly committed to enhancing its competitive position, with its landbank amounting to approximately 3.7 million sq m of attributable gross floor area in Hong Kong and Mainland China as of end-June 2019.

九龍建業有限公司(股份代號：34)自成立以來一直從事物業投資及投資控股業務，其業務主要於香港營運。本公司自保利達集團於二零零二年入主起便大幅擴濶其業務範圍，集團主要於香港、中國大陸及澳門從事投資控股、物業發展、物業投資及物業管理業務，並通過本公司擁有70.8%權益之上市附屬公司保利達資產控股有限公司(股份代號：208)投資於澳門地產發展業務。集團致力提升本身之競爭優勢，截至二零一九年六月底，其於香港及中國大陸土地儲備之應佔樓面面績約3,700,000平方米。

Artist's Impression of Clubhouse at One East Coast (Hong Kong)
海傲灣(香港)會所之電腦構想圖

Contents

2 Corporate Information
4 Group's Business Structure
5 Highlights
6 Chairman's Statement
12 Financial Review

14 Consolidated Income Statement
15 Consolidated Statement of Comprehensive Income
16 Consolidated Statement of Financial Position
18 Consolidated Statement of Changes in Equity
19 Condensed Consolidated Cash Flow Statement
20 Notes to the Unaudited Interim Financial Report
37 Independent Review Report of the Auditor
38 Other Information

One East Coast (Hong Kong)

Corporate Information

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Executive Directors
Mr Or Wai Sheun *(Chairman)*
Mr Lai Ka Fai
Mr Or Pui Kwan
Mr Lam Yung Hei

Non-executive Directors
Ms Ng Chi Man
Mr Yeung Kwok Kwong

Independent Non-executive Directors
Mr Li Kwok Sing, Aubrey
Mr Lok Kung Chin, Hardy
Mr Seto Gin Chung, John
Mr David John Shaw

Committees

Executive Committee
Mr Or Wai Sheun *(Chairman)*
Mr Lai Ka Fai
Mr Or Pui Kwan
Mr Lam Yung Hei
Mr Yeung Kwok Kwong

Audit Committee
Mr Li Kwok Sing, Aubrey *(Chairman)*
Mr Lok Kung Chin, Hardy
Mr Seto Gin Chung, John
Mr Yeung Kwok Kwong

Nomination Committee
Mr Or Wai Sheun *(Chairman)*
Mr Lok Kung Chin, Hardy
Mr David John Shaw

Remuneration Committee
Mr Seto Gin Chung, John *(Chairman)*
Mr Lai Ka Fai
Mr Li Kwok Sing, Aubrey
Mr Lok Kung Chin, Hardy

Artist's Impression of One East Coast (Hong Kong)

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary
Mr Lee Kuen Chiu

Independent Auditor
KPMG
Certified Public Accountants

Authorised Representatives
Mr Lai Ka Fai
Mr Lee Kuen Chiu

Legal Adviser
Sidley Austin

Share Registrar
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office
23rd Floor, Pioneer Centre, 750 Nathan Road,
Kowloon, Hong Kong
Telephone: (852) 2396 2112
Facsimile : (852) 2789 1370
Website : www.kdc.com.hk
E-mail : enquiry@kdc.com.hk

Stock Code
The Stock Exchange of Hong Kong Limited: 34

Principal Bankers
ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
China Construction Bank (Asia)
Chong Hing Bank
Hang Seng Bank
Industrial and Commercial Bank of China
Standard Chartered Bank
United Overseas Bank

Financial Calendar for Interim Results 2019

Interim results announcement	21 August 2019
Ex-dividend date for interim dividend	21 November 2019
Closure of register of members	25 November 2019 – 26 November 2019 (both dates inclusive)
Interim dividend payable	11 December 2019

Group's Business Structure

KOWLOON DEVELOPMENT COMPANY LIMITED

(A member of the Polytec Group)
Stock Code: 34

HONG KONG PROPERTY

Property Development
Major development projects:
- 63 Pokfulam
- One East Coast
- Tseung Kwan O
- Clear Water Bay Road

Development Landbank:
273,000 sq m

Property Investment
Flagship investment property:
- Pioneer Centre

Investment Landbank:
53,000 sq m

Property Management
Properties under management:
1,439,000 sq m

MAINLAND CHINA PROPERTY

Property Development
Major development projects:
- Le Cove City (Shenyang)
江灣城（瀋陽）
- The Gardenia (Shenyang)
翠堤灣（瀋陽）
- Le Cove Garden (Huizhou)
江灣南岸花園（惠州）#
- The Lake (Foshan)
山語湖（佛山）
- Le Cove City (Wuxi)
江灣城（無錫）
- City Plaza (Tianjin)
城市廣場（天津）
- Shanghai (Shanghai)

Development Landbank:
3,199,000 sq m

POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
70.8%

MAINLAND CHINA PROPERTY

Property Development
Major development projects:
- Zhongshan (Zhongshan)
- Zhuhai (Zhuhai)⊕

Development Landbank:
284,000 sq m

MACAU PROPERTY

Property Investment
Major investment property:
- The Macau Square

Investment Landbank:
13,000 sq m

ICE & COLD STORAGE AND ENERGY BUSINESS

Ice & Cold Storage
The Hong Kong Ice & Cold Storage Company Limited is one of the largest ice making distributors in Hong Kong

Oil
Oil production and exploration in Kazakhstan

The development of this project is under the co-investment agreement with Polytec Holdings International Limited.
⊕ The acquisition is expected to be completed by the end of 2019.

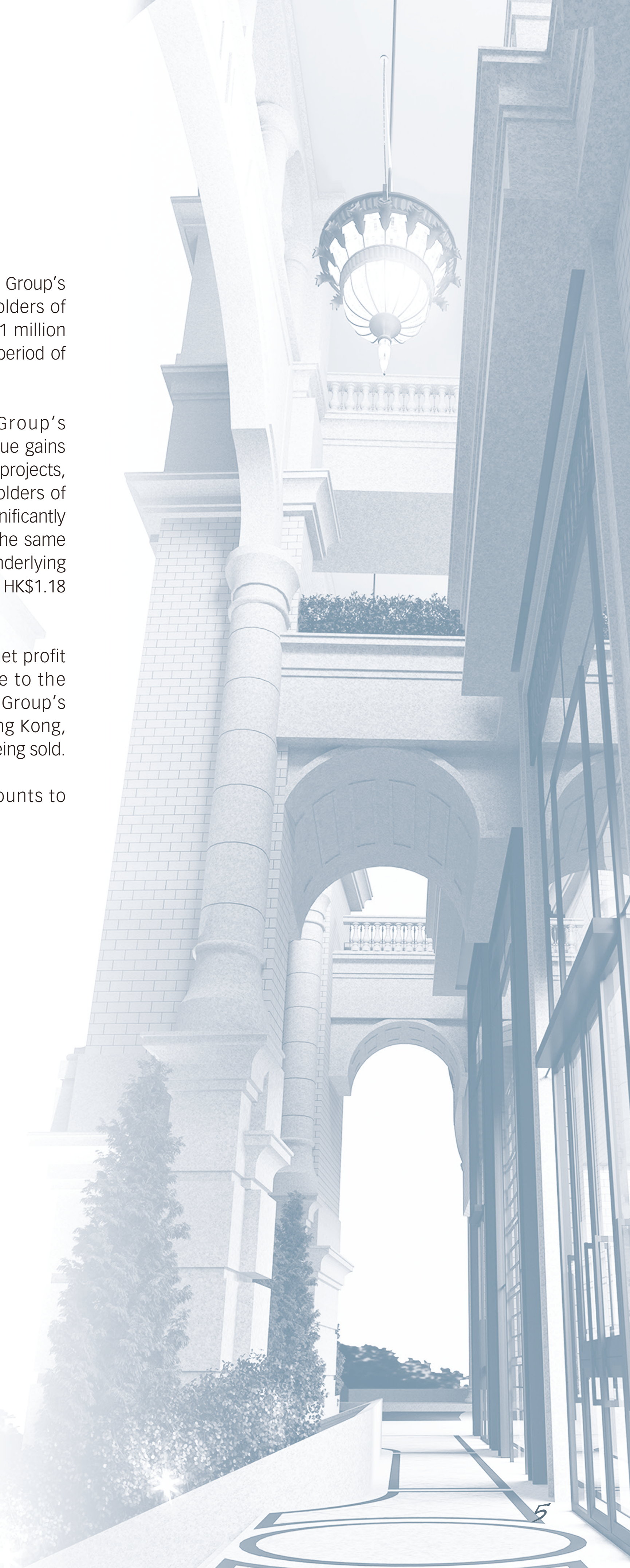
Highlights

- 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).



Artist's Impression of 63 Pokfulam (Hong Kong)

Chairman's Statement

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.

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

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

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

Property Development *(Continued)*

Major Property Projects under Planning and Development *(Continued)*

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China *(Continued)*								
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 is expected to be completed by the end of 2019.

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

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

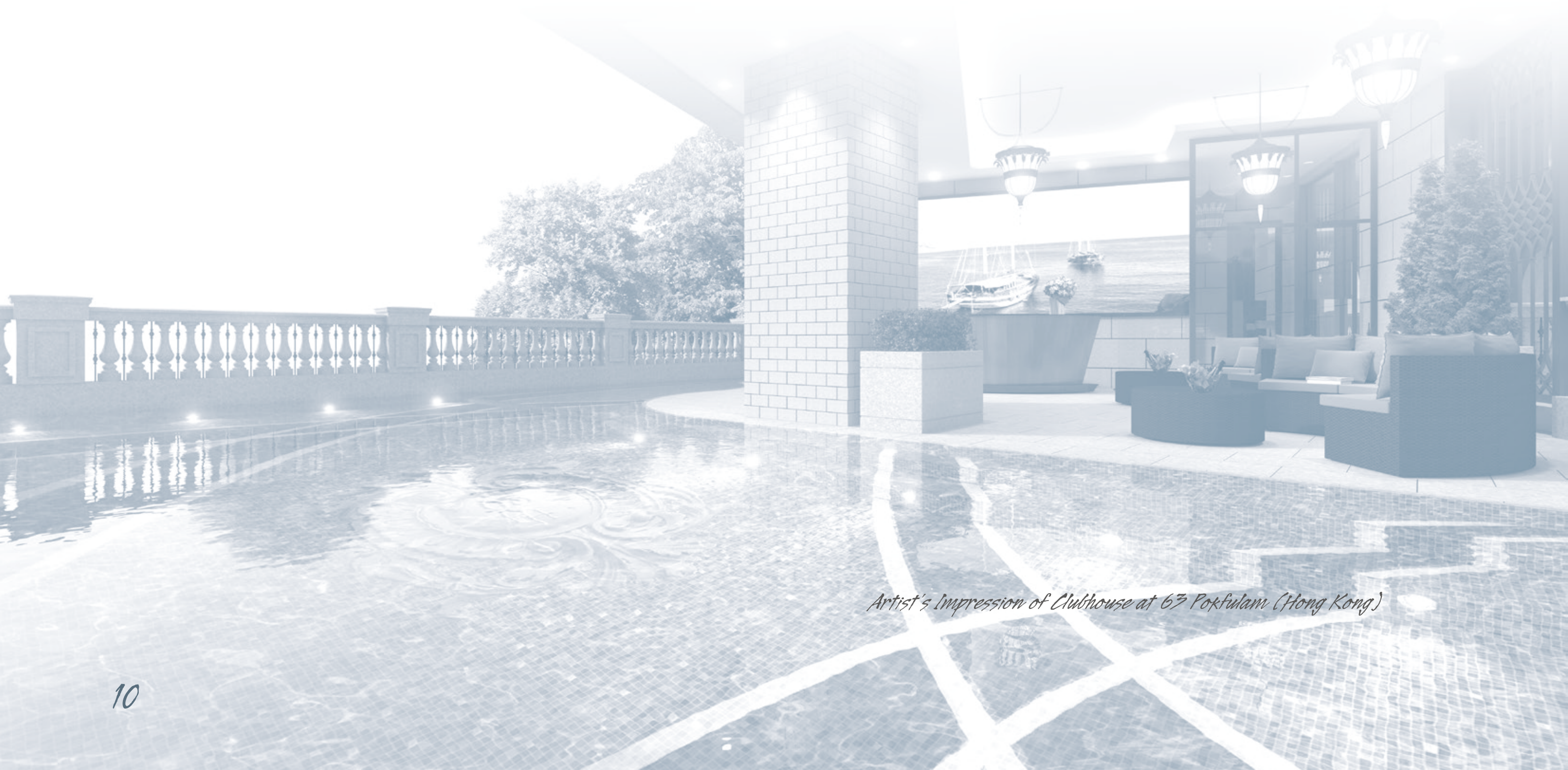
The Group has delivered exceptional interim results for 2019, with the underlying net profit rising significantly by over 200% compared to the same period in 2018. This substantial increase in the underlying net profit was mainly due to the recognition of sales from Upper East, its newly completed large 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.



Artist's Impression of Clubhouse at 63 Pokfulam (Hong Kong)

PROSPECTS *(CONTINUED)*

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.

Or Wai Sheun
Chairman

Hong Kong, 21 August 2019

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.

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2019 $'000 (unaudited)	2018 $'000 (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(a)	**(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	8	**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	4(b)	**(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	4	**2,333,414**	1,267,493
Income tax	5	**(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	6	**$1.57**	$0.90

The notes on pages 20 to 36 form part of the interim financial report.

Consolidated Statement of Comprehensive Income

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
	$'000	$'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

The notes on pages 20 to 36 form part of the interim financial report.

Consolidated Statement of Financial Position

(Expressed in Hong Kong dollars)

	Note	At 30 June 2019 $'000 (unaudited)		At 31 December 2018 $'000 (audited)	
Non-current assets					
Investment properties	8		**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	12		**623,576**		818,470
Deferred tax assets			**96,144**		125,794
			31,406,193		31,526,874
Current assets					
Inventories	11	**17,325,563**		20,015,325	
Interests in property development	10	**1,311,804**		871,658	
Trade and other receivables	12	**1,259,380**		1,130,952	
Loans and advances	12	**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	
Current liabilities					
Trade and other payables	13	**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

	Note	At 30 June 2019 $'000 (unaudited)		At 31 December 2018 $'000 (audited)	
Non-current liabilities					
Loan from a related company	14	**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

Approved and authorised for issue by the board of directors on 21 August 2019.

The notes on pages 20 to 36 form part of the interim financial report.

Consolidated Statement of Changes in Equity

(Expressed in Hong Kong dollars)

	Note	Attributable to shareholders of the Company					Non-controlling interests $'000	Total equity $'000
		Share capital $'000	Capital reserve $'000	Exchange reserves $'000	Retained profits $'000	Total $'000		
At 1 January 2018		8,636,490	74,865	410,090	15,784,238	24,905,683	3,391,285	28,296,968
Changes in equity for the six months ended 30 June 2018								
Profit for the period		–	–	–	1,059,462	1,059,462	173,499	1,232,961
Other comprehensive income		–	–	(68,405)	–	(68,405)	(567)	(68,972)
Total comprehensive income		–	–	(68,405)	1,059,462	991,057	172,932	1,163,989
Dividends approved in respect of the previous year	7(b)	–	–	–	(505,951)	(505,951)	–	(505,951)
Dividends paid/payable to non-controlling interests		–	–	–	–	–	(25,792)	(25,792)
At 30 June and 1 July 2018		8,636,490	74,865	341,685	16,337,749	25,390,789	3,538,425	28,929,214
Changes in equity for the six months ended 31 December 2018								
Profit for the period		–	–	–	1,133,847	1,133,847	285,064	1,418,911
Other comprehensive income		–	–	(256,938)	–	(256,938)	(708)	(257,646)
Total comprehensive income		–	–	(256,938)	1,133,847	876,909	284,356	1,161,265
Dividends approved in respect of the current year	7(a)	–	–	–	(258,859)	(258,859)	–	(258,859)
Dividends paid/payable to non-controlling interests		–	–	–	–	–	(14,147)	(14,147)
Intercompany loan assigned in excess of the consideration paid for acquisition of a subsidiary		–	7,901	–	–	7,901	–	7,901
Special dividend by way of distribution in specie of shares in a subsidiary	7(a)	–	(259,361)	–	(81,188)	(340,549)	340,549	–
At 31 December 2018		8,636,490	(176,595)	84,747	17,131,549	25,676,191	4,149,183	29,825,374
(unaudited) **At 1 January 2019**		**8,636,490**	**(176,595)**	**84,747**	**17,131,549**	**25,676,191**	**4,149,183**	**29,825,374**
Changes in equity for the six months ended 30 June 2019								
Profit for the period		**–**	**–**	**–**	**1,850,631**	**1,850,631**	**209,535**	**2,060,166**
Other comprehensive income		**–**	**–**	**(29,625)**	**–**	**(29,625)**	**(1,921)**	**(31,546)**
Total comprehensive income		**–**	**–**	**(29,625)**	**1,850,631**	**1,821,006**	**207,614**	**2,028,620**
Dividends approved in respect of the previous year	7(b)	**–**	**–**	**–**	**(588,316)**	**(588,316)**	**–**	**(588,316)**
Dividends paid/payable to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(109,832)**	**(109,832)**
At 30 June 2019		**8,636,490**	**(176,595)**	**55,122**	**18,393,864**	**26,908,881**	**4,246,965**	**31,155,846**

The notes on pages 20 to 36 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2019	2018
	$'000	$'000
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	**3,178,333**	(295,135)
Investing activities		
Decrease/(Increase) in pledged bank deposits	**289,158**	(1,067,490)
Other cash flows arising from investing activities	**3,654**	(73,366)
Net cash generated from/(used in) investing activities	**292,812**	(1,140,856)
Financing activities		
Drawdown of bank loans	**3,107,000**	1,823,675
Repayment of bank loans	**(6,488,993)**	(765,000)
Other cash flows arising from financing activities	**(57,642)**	(445,779)
Net cash (used in)/generated from financing activities	**(3,439,635)**	612,896
Net increase/(decrease) in cash and cash equivalents	**31,510**	(823,095)
Cash and cash equivalents at 1 January	**1,068,348**	1,969,391
Effect of foreign exchange rate changes	**(1,572)**	(9,443)
Cash and cash equivalents at 30 June	**1,098,286**	1,136,853
Analysis of balances of cash and cash equivalents at 30 June		
Cash and bank balances	**1,098,286**	1,136,853

The notes on pages 20 to 36 form part of the interim financial report.

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.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report 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 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Changes in accounting policies *(Continued)*

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.

3 Segment reporting *(Continued)*

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.

(a) Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Sale of properties	**5,130,583**	213,153
Sale of crude oil	**26,039**	36,549
Others	**53,152**	55,040
	5,209,774	304,742
Revenue from other sources:		
Distribution from interests in property development	**220,000**	180,000
Rental income	**178,875**	175,815
Others	**56,118**	45,070
	5,664,767	705,627

3 Segment reporting *(Continued)*

(b) 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 period is set out below.

	Six months ended 30 June 2019						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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)*

(b) Segment results and assets *(Continued)*

	At 30 June 2019						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 Profit before taxation

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

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

(b) Finance costs

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

Remark: Borrowing costs were capitalised at rates of 2.04% – 3.89% (six months ended 30 June 2018: 1.82% – 3.36%) per annum in Hong Kong and 5.49% – 6.65% (six months ended 30 June 2018: Nil) per annum in Mainland China.

(c) Other items

	Six months ended 30 June 2019 $'000	2018 $'000
Rentals receivable under operating leases less outgoings	**(162,008)**	(164,112)
Rental income	**(178,875)**	(175,815)
Less: Outgoings	**16,867**	11,703
Depreciation and amortisation (Remark)	**19,975**	15,524
Interest income	**(56,568)**	(45,520)

Remark: Cost of sales includes $8,521,000 (six months ended 30 June 2018: $7,650,000) relating to depreciation and amortisation expenses.

5 Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2019	2018
	$'000	$'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.

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 $1,850,631,000 (six months ended 30 June 2018: $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.

7 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Cash dividend:		
Interim dividend declared after the interim period of $0.24 (six months ended 30 June 2018: $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 $81,188,000 were recognised as distribution during 2018, which represented a distribution of approximately $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.

(b) Dividends attributable to the previous financial year and approved during the interim period

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Final dividend in respect of the previous financial year, approved during the interim period, of $0.50 (six months ended 30 June 2018: $0.43) per share	**588,316**	505,951

8 Investment properties

The investment properties of the Group were revalued at 30 June 2019 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has relevant qualifications and experience in the valuation of similar properties in the relevant locations. The Group's investment properties are revalued semi-annually by using the income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value, which is calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period. The Group's investment properties under development are revalued semi-annually by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

A revaluation gain of $100,281,000 (six months ended 30 June 2018: $291,582,000) and deferred tax thereon of Nil (six months ended 30 June 2018: $15,000,000) were recognised in the consolidated income statement for the six months ended 30 June 2019.

9 Oil production assets and oil exploitation assets

As at 30 June 2019, the Group had oil production assets of $287,241,000 (31 December 2018: $295,191,000) (included in property, plant and equipment) and oil exploitation assets of $27,212,000 (31 December 2018: $27,516,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which are considered to be the higher of the fair value less costs of disposal and value in use. The fair value of oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. Determination as to whether and how much an asset is impaired involves management judgements in estimating future crude oil prices, the discount rate used in discounting the projected cash flows and the production profile. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and on the assumptions that all relevant licences and permits are obtained. However, the business environment, including crude oil prices, is affected by a wide range of global and domestic factors, which are all beyond the control of the Group. Any adverse change in the key assumptions could increase the impairment provision.

9 Oil production assets and oil exploitation assets *(Continued)*

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%).

Crude oil price assumptions were based on market expectations. At 30 June 2019, it is estimated that an increase/decrease of 20% (31 December 2018: 20%) in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production and exploitation assets by $175,375,000/$203,770,000 (31 December 2018: $184,558,000/$194,237,000). The discount rate used represents the rate to reflect the time value of money and the risks specific to the assets. It is estimated that an increase/decrease of 200 basis points (31 December 2018: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have decreased/increased the carrying amounts of the oil production and exploitation assets by $26,120,000/$28,441,000 (31 December 2018: $39,176,000/$43,434,000).

10 Interests in property development

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 the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but was declined by the relevant department of the Macau SAR Government.

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

Based on the legal opinion obtained by the Group, management is of the view that PCL has strong legal grounds and arguments to seek compensation from the Macau SAR Government for losses and damages, including but not limited to all actual losses suffered and all loss of profit as expected to be derived upon completion of the project, as a result of the procedural delay in granting the requisite approvals and permits for the development of the project which caused the 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.

10 Interests in property development *(Continued)*

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 agreements, distribution of $220,000,000 (six months ended 30 June 2018: $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 $220,000,000 (six months ended 30 June 2018: $180,000,000).

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

11 Inventories

	At 30 June 2019 $'000	At 31 December 2018 $'000
Land and properties held for future development	**4,496,611**	4,467,712
Properties under development	**11,706,495**	11,638,824
Properties held for sale	**1,111,413**	3,896,005
Trading goods and consumables	**11,044**	12,784
	17,325,563	20,015,325

The amount of land and properties held for future development and properties under development expected to be recovered after more than one year is $4,496,611,000 (31 December 2018: $4,467,712,000) and $7,323,271,000 (31 December 2018: $7,886,304,000) respectively. All of the other inventories are expected to be recovered within one year.

12 Trade and other receivables/Loans and advances

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

	At 30 June 2019 $'000	At 31 December 2018 $'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

As at 30 June 2019, included in utility and other deposits was a deposit of $161,095,000 (31 December 2018: $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 $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.

Utility and other deposits of the Group of $8,432,000 (31 December 2018: $7,838,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $280,487,000 (31 December 2018: $113,444,000) are expected to be recovered after more than one year.

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.

13 Trade and other payables

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

	At 30 June 2019 $'000	At 31 December 2018 $'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

14 Loan from a related company

Loan from a related company is unsecured, interest bearing at Hong Kong Interbank Offered Rate plus a margin per annum and is not expected to be repaid within one year.

15 Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13,"Fair value measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

15 Fair values measurement of financial instruments *(Continued)*

Financial assets and liabilities measured at fair value *(Continued)*

	At 30 June 2019 $'000	At 31 December 2018 $'000
Assets		
Level 3		
Interests in property development	**14,335,242**	13,837,954

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2019 $'000	2018 $'000
At 1 January	**13,837,954**	13,663,454
Distributions	**(220,000)**	(1,660,000)
Changes 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

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, management estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate based on the past performance, current market conditions, development and building plans, sale and marketing plans and management's expectations for market development and terms provided under the co-investment agreements. Any adverse change in the key assumptions could decrease the fair value.

The Group has a team reporting to the top management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the top management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the models of development projects at Lotes T+T1 in Macau and Huizhou in Mainland China includes estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau and Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the average market selling price range from –10% to +10%.

The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. As at 30 June 2019, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying properties in Lotes T+T1 and Huizhou of the Group's interests in property development, with all other variables held constant, would have increased/decreased the Group's retained earnings by $220,501,000/$220,501,000 (31 December 2018: $233,944,000/$233,944,000).

16 Capital commitments

Capital commitments outstanding at the end of the reporting period contracted but not provided for in the financial statements amounted to $23,739,000 (31 December 2018: $43,405,000).

17 Contingent liabilities

As at 30 June 2019, the Group has provided guarantees of approximately $903,756,000 (31 December 2018: $907,326,000) representing a 50% proportional guarantee in respect of an aggregate of $1,807,512,000 term loan facilities (31 December 2018: $1,814,651,000) to a joint venture in Mainland China. The facilities were utilised to the extent of $306,936,000 (31 December 2018: $570,645,000) at 30 June 2019.

18 Pledge of assets

As at 30 June 2019, properties having a value of approximately $14,772,550,000 (31 December 2018: $16,863,598,000) and bank deposits of $753,920,000 (31 December 2018: $1,042,161,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

19 Material related party transactions

In addition to the transactions and balances disclosed above, the Group also entered into the following material related party transactions:

(a) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, Mainland China.

(b) As at 30 June 2019, the Group has given guarantees to an insurance company and financial institutions in respect of performance bonds entered into by an associated company to the extent of $28,212,000 (31 December 2018: $28,212,000).

(c) As at 30 June 2019, certain bank loans were secured by properties and shares of and guaranteed by subsidiaries of Polytec Holdings having a total value of $3,007,000,000 (31 December 2018: $2,845,500,000).

(d) As at 30 June 2019, loans to joint ventures of $236,552,000 (31 December 2018: $219,500,000) were unsecured, interest bearing at fixed rates and were not expected to be repaid within one year. During the period ended 30 June 2019, interest income of $8,033,000 (six months ended 30 June 2018: $8,033,000) was recognised in profit or loss. As at 30 June 2019, the amounts due from joint ventures of $309,959,000 (31 December 2018: $301,926,000) and the amount due to a joint venture of $706,521,000 (31 December 2018: $709,312,000) were unsecured, interest free and repayable on demand.

19 Material related party transactions *(Continued)*

(e) As at 30 June 2019, loan to an associated company of $459,179,000 (31 December 2018: $517,437,000) was unsecured, interest bearing at a rate determined by the shareholders and was not expected to be repaid within one year. During the period ended 30 June 2019, interest income of $1,703,000 (six months ended 30 June 2018: $2,790,000) was recognised in profit or loss included in the share of profits of associated companies. As at 30 June 2019, accumulated accrued interest income of approximately RMB942,000,000 (31 December 2018: RMB896,000,000) due from an associated company had not been recognised as the Group considered it was not probable that the economic benefits will flow to the Group as at the end of the reporting period. During the period ended 30 June 2019, the Group had partially repaid a loan from a related company by transferring the interest income received and repayment of a loan to an associated company amounting to $58,956,000 (six months ended 30 June 2018: $60,534,000).

(f) As at 30 June 2019, properties with an aggregate value of $1,145,394,000 (31 December 2018: $1,145,394,000) were held on trust by the subsidiaries of Polytec Holdings.

20 Non-adjusting event after the reporting period

On 9 August 2019, the Group has acquired 7.9% of the equity interests in Easy Living Consultant Limited ("Easy Living", an associated company of the Group) at a consideration of $5,214,000 from three independent third parties. The transaction was completed on 9 August 2019 and the Group's equity interest in Easy Living increased to 56.9%. Accordingly, Easy Living became a subsidiary of the Group.

Independent Review Report of the Auditor

To the board of directors of
Kowloon Development Company Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 36 which comprises the consolidated statement of financial position of Kowloon Development Company Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2019 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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 Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 21 August 2019

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:

Code Provision A.2.1
Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the Annual Report 2018.

SECURITIES TRADING POLICY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (Appendix 10 to the Listing Rules) as a code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the period under review and all the Directors have confirmed that they had fully complied with the required standard set out in the Model Code. The Company has also established written guidelines on employees' securities transactions. Relevant employees are required to obtain written preclearance before initiating a securities transaction during the black-out period.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company required to be disclosed are set out below:

1. Mr Seto Gin Chung, John, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of Pokfulam Development Company Limited (listed on the Stock Exchange of Hong Kong) since 1 July 2019.

2. The monthly salary of the following Directors has been adjusted since 1 July 2019 and details are set out below:

	1 January 2019 to 30 June 2019	From 1 July 2019
Mr Or Pui Kwan	HK$80,000	HK$97,600
Mr Lam Yung Hei	HK$90,000	HK$97,600
Mr Lai Ka Fai	HK$183,100	HK$189,500
Mr Yeung Kwok Kwong	HK$194,200	HK$199,200

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

During the six months ended 30 June 2019, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2019, the interests of the Directors in the shares of the Company and Polytec Asset Holdings Limited ("Polytec Asset") as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, are set out below:

1. Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note
Mr Or Wai Sheun	Corporate	831,047,624	70.63%	2
Mr Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	3
Mr Lai Ka Fai	Personal	751,000	0.06%	
Mr David John Shaw	Personal	133,500		
	Family	67,000		4
		200,500	0.02%	
Mr Yeung Kwok Kwong	Personal	180,000	0.02%	
Mr Or Pui Kwan	Personal	43,500	0.00%	

DIRECTORS' INTERESTS AND SHORT POSITIONS *(CONTINUED)*

2. Long positions in the shares of Polytec Asset

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 5)	Note
Mr Or Wai Sheun	Corporate	3,142,341,682		6
	Corporate	83,104,762		2
		3,225,446,444	72.66%	
Mr Or Pui Kwan	Personal	7,004,350	0.16%	
Mr Lam Yung Hei	Family	7,000,000	0.16%	7
Mr Yeung Kwok Kwong	Personal	2,018,000	0.05%	
Mr Lai Ka Fai	Personal	505,100	0.01%	
Mr Lok Kung Chin, Hardy	Founder and beneficiary of trusts	142,500	0.00%	3
Mr David John Shaw	Personal	13,350		
	Family	6,700		4
		20,050	0.00%	

Notes:

(1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 30 June 2019.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of New Explorer Developments Limited which is wholly-owned by Mr Or Wai Sheun.

(3) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.

(4) Such interest in shares is held by the deceased spouse of Mr David John Shaw and the shares form part of her estate.

(5) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 30 June 2019. Polytec Asset is an associated corporation of the Company.

(6) Such interest in shares of Polytec Asset is held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun is taken to be interested in the shares of Polytec Asset.

(7) Such interest in shares of Polytec Asset is held by the spouse of Mr Lam Yung Hei.

DIRECTORS' INTERESTS AND SHORT POSITIONS *(CONTINUED)*

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDER'S INTEREST

As at 30 June 2019, the shareholder (other than Directors and the chief executives of the Company) who had interest or short position in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO is set out below:

Name	Nature of interest	Number of ordinary shares	Percentage of shareholding (Note 1)	Note
New Explorer Developments Limited	Corporate	831,047,624	70.63%	2

Notes:

(1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 30 June 2019.

(2) Such interest in shares is held by Intellinsight as described in note (2) under the section headed "Directors' Interests and Short Positions".

The interest disclosed above represents long position in the shares of the Company.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than the Directors or the chief executives of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2019, the Group had a total of 828 employees (31 December 2018: 858 employees), of which 580 were Hong Kong staff, 137 were Mainland China staff and 111 were staff in other regions. During the period, total staff costs increased to HK$125 million (30 June 2018: HK$123 million) due to salary revisions in July 2018. Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

The Group believes that the quality of its human resources is critical for it to maintain a strong competitive edge. The Group has conducted a range of training programmes through various institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

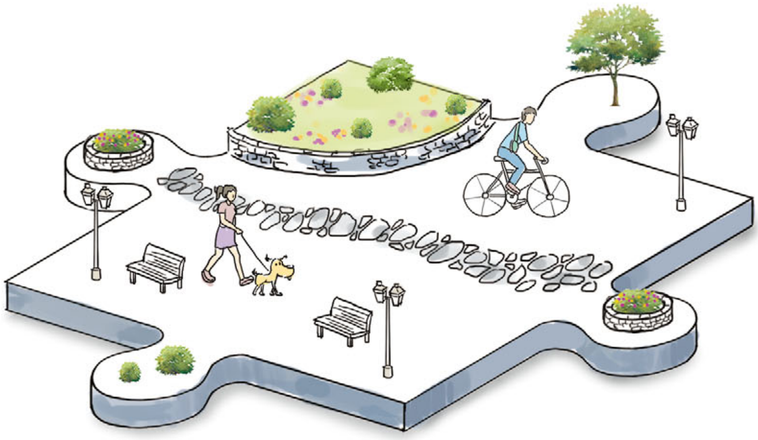
In addition, the Group established a recreation club and held an annual dinner with lucky draw conducted for employees during the period to promote team spirit and loyalty and encourage communication between departments.

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, for registration not later than 4:30 pm (Hong Kong time) on Friday, 22 November 2019.

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 Certified Public Accountants, whose review report is contained on page 37 of this interim report.



www.kdc.com.hk

MIX
Paper from
responsible sources
FSC™ C007445