九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 34)

2020 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2020, the Group's unaudited net profit attributable to shareholders of the Company fell significantly to HK$575 million from HK$1,851 million in the corresponding period of 2019, a decrease of 68.9%.
- Excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for the first half of 2020 fell to HK$1,009 million from HK$1,390 million in the same period of 2019, a decrease of 27.4%. The underlying net interim earnings per share for 2020 were HK$0.86 compared to HK$1.18 for 2019.
- Interim dividend in cash per share for 2020 amounts to HK$0.24 (2019: HK$0.24).
- Special interim dividend by way of distribution in specie was also declared on the basis of 3,142,341,682 PAH Shares held by the Group as at the date of this announcement, pursuant to which each qualifying shareholder of the Company will be entitled to 2.67 PAH Shares for every 1 ordinary share of the Company held.

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2020, the Group's unaudited net profit attributable to shareholders of the Company fell significantly to HK$575 million from HK$1,851 million in the corresponding period of 2019, a decrease of 68.9%. The interim earnings per share for 2020 amounted to HK$0.49 compared to HK$1.57 for the same period in 2019.

Excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for the first half of 2020 fell to HK$1,009 million from HK$1,390 million in the same period of 2019, a decrease of 27.4%. The underlying net interim earnings per share for 2020 were HK$0.86 compared to HK$1.18 for 2019.

At the meeting of the Board of Directors on 19 August 2020, the Board of Directors has resolved to declare an interim dividend in cash of HK$0.24 per share for the six months ended 30 June 2020 (2019: HK$0.24) (the "Interim Dividend").

In addition, the Board of Directors has resolved to declare a special interim dividend (the "Special Dividend") by way of distribution in specie (the "Distribution in Specie") of the ordinary shares (the "PAH Shares") of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208) held by the Group, to the qualifying shareholders whose names appear on the Register of Members of the Company on the date (the "Record Date") fixed for determining the shareholders' entitlement to the Distribution in Specie in proportion to their respective shareholdings in the Company. Assuming that there is no change in the issued share capital of the Company between the date of this announcement and the Record Date and on the basis of 3,142,341,682 PAH Shares held by the Group as at the date of this announcement, each qualifying shareholder of the Company will be entitled to 2.67 PAH Shares for every 1 ordinary share of the Company held.

The Board of Directors considers that the Special Dividend by way of the Distribution in Specie is in the interests of both the Company and its shareholders. In addition to property business in Macau and the Greater Bay Area, Polytec Asset also engaged in oil, ice manufacturing and cold storage, financial investment, etc. The business mix of Polytec Asset differs from that of the Company which has positioned itself as a leading property developer/investor in the Greater China Region. Following the Distribution in Specie, the Group will no longer have any shareholding interests in Polytec Asset and Polytec Asset will cease to be a subsidiary of the Company. By delineating Polytec Asset and its subsidiaries from the Company, the Group's business mix will be streamlined and the Company's focus on property development and investment in the Greater China Region should eliminate any discount to its market value which may have resulted from the diverse activities within Polytec Asset and its subsidiaries. On the other hand, the Distribution in Specie provides the shareholders of the Company with an opportunity to directly hold the Company's investment in Polytec Asset coupled with the flexibility for the shareholders to determine the level of their participation in investing in Polytec Asset at their own discretion.

Given that the Company wishes to be able to develop and/or invest in property and property-related businesses in the Greater China Region, including the Greater Bay Area, it is possible for the Company and Polytec Asset to develop and/or invest in such businesses in the same Greater Bay Area upon completion of the Distribution in Specie. In addition, the future strategies and businesses will be carried out by each of the Company and Polytec Asset independently and any activities between the Company and Polytec Asset will be conducted on an arm's length basis then.

The Interim Dividend, together with the Special Dividend by way of the Distribution in Specie, will be payable to shareholders of the Company on Friday, 30 October 2020. As at the date of this announcement, the number of PAH Shares subject to the Distribution in Specie is 3,142,341,682, representing approximately 70.79% of the total number of PAH Shares in issue and all of the PAH Shares held by the Group. Following the Distribution in Specie, the Group will no longer have any shareholding interests in Polytec Asset and Polytec Asset will cease to be a subsidiary of the Company and its results will cease to be consolidated in the financial statements of the Company.

As at the date of this announcement, the Company is owned as to 70.63% by Intellinsight Holdings Limited ("Intellinsight"), the ultimate beneficial owner of which is Mr Or Wai Sheun, the Chairman and an Executive Director of the Company. Immediately upon completion of the Distribution in Specie, Polytec Asset will be held as to 51.86% by Intellinsight (on the assumption that there is no change in the issued share capital of Polytec Asset and the number of PAH Shares held by Intellinsight and its subsidiaries from the date of this announcement up till the completion of the Distribution in Specie).

The Company was informed that Intellinsight has applied for, and the executive director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong has granted a waiver of, the obligation to make a mandatory general offer for all the PAH Shares not already owned or will be acquired by Intellinsight and the parties acting in concert with it as a result of the completion of the Distribution in Specie pursuant to Note 6(a) to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers.

It should be noted that the Distribution in Specie is subject to overseas legal and regulatory restrictions, if any, and therefore it may not be possible or practicable to distribute PAH Shares to certain overseas shareholders of the Company. Further announcement(s) in relation to the arrangements for the Interim Dividend and the Special Dividend will be made by the Company as soon as practicable.

MARKET OVERVIEW AND BUSINESS REVIEW

Due to the outbreak of the coronavirus, the property markets in Hong Kong, Mainland China and Macau have been adversely affected to varying degrees. The outbreak in Mainland China got largely contained earlier than Macau and Hong Kong and therefore its property market has already seen a recovery. The epidemic situation in Macau has gradually stabilised now. However, Hong Kong's outbreak has not yet been contained and therefore the outlook for its property market remains uncertain.

Development Property Sales

In Hong Kong, the Group's wholly-owned high-end residential development project, namely 63 Pokfulam, was completed in February 2020 and the residential units have gradually been delivered to buyers since May 2020. Over 95% of residential units at 63 Pokfulam were sold as of 30 June 2020, with total sale proceeds of approximately HK$2.4 billion being recognised for the period under review.

In Mainland China, total presales/sales attributable to the Group amounted to approximately RMB856 million (approximately HK$937 million) for the six months ended 30 June 2020.

In Macau, the Group received attributable net income distributions of approximately HK$198 million for its interest in the La Marina development project for the six months ended 30 June 2020.

In respect of the Pearl Horizon development project, an unfavourable judgement was issued by the Administrative Court on 30 March 2020 for 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. With regard to this, a petition for appeal was submitted to the Court of Second Instance in Macau on 29 May 2020.

Property Development

As of 30 June 2020, the Group's landbank for development amounted to approximately 3.4 million sq m of attributable GFA. The Group's major property projects under planning and development are set out as follows:

Major Property Projects under Planning and Development

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked* (sq m)	Group's Interest	Project Status	Expected Date of Completion
Hong Kong								
Tseung Kwan O	Tseung Kwan O, New Territories	Residential	9,635	48,200	—	100%	Superstructure works in progress	End-2021/ Early-2022
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	—	100%	Land premium negotiation in progress	To be determined
Mainland China								
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	368,293	100%	Planning and design works for Phase 5 in progress	Phase 5 2023
The Gardenia (Shenyang) 翠堤灣（瀋陽）	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	598,390	100%	Superstructure works for Phase 3A (South Block) in progress	Phase 3A (South Block) 2021/2022
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）#	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	245,800	60%	Superstructure works for Phase 2 in progress	Phase 2 2021; Phase 3 2023
The Lake (Foshan) 山語湖（佛山）	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	852,346	50%	Superstructure works for Phase 3 in progress	Phase 3 2022
Le Cove City (Wuxi) 江灣城（無錫）	Chong An District, Wuxi	Residential & commercial	68,833	365,000	110,510	100%	Foundation works for Phase 4 in progress	Phase 4 2023
City Plaza (Tianjin) 城市廣場（天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000	241,395	49%	Planning and design works for Phase 3B in progress	Phase 3A 2023; Phase 3B 2025
Shanghai (Shanghai)	Yangpu District, Shanghai	Residential & commercial	21,427	113,600△	—	100%	Master planning in progress	2023/2024

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**	**Project Status**	**Expected Date of Completion**
Mainland China ***(Continued)***								
Zhongshan (Zhongshan)	South District, Zhongshan	Residential & commercial	234,802	587,000	—	35.4%	Planning and design works in progress	2022–2026

※ 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.

Note: A property project in Hong Kong, namely 63 Pokfulam, was completed during the period under review.

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 2020 fell to HK$139 million, a decrease of 22.3% over the corresponding period in 2019. With overall retail sales in Hong Kong plummeting in the first half of 2020, falling over 30% year-on-year due to the outbreak of the coronavirus, the Group's gross rental income, particularly from the retail portion in Hong Kong, was adversely affected.

Financial Investments

Total net income generated from the Group's financial investment activities amounted to HK$23.3 million for the first six months of 2020, with net income of HK$19.9 million being generated by Polytec Asset.

Other Businesses through Polytec Asset, a 70.79%-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, Polytec Asset's share of gross rental income generated from the joint venture's investment properties rose to HK$42.4 million from HK$41.4 million in the corresponding period in 2019. The rental income was mainly generated from The Macau Square, Polytec Asset's 50%-owned investment property, with its share of total rental income of the property amounting to HK$39.0 million for the first half of 2020 as compared to HK$38.3 million for the same period in 2019.

- **Oil**

  The oil segment recorded a loss after tax of HK$76.4 million for the six months ended 30 June 2020, compared to a loss of HK$11.3 million over the same period in 2019. The increase in the loss was mainly due to the significant decline in international oil prices for the period under review and an impairment loss of HK$63.3 million made for Polytec Asset's oil production and exploitation assets in Kazakhstan (with the change in its related tax being included). While the Brent oil price has currently rebounded to around US$40 per barrel from its historic lows (below US$20 per barrel) at the beginning of 2020, it is generally expected that international oil prices are unlikely to rise significantly in the short- to medium-term and a full write-off was therefore made for the remaining value of Polytec Asset's oil assets in Kazakhstan in the first half of 2020.

- **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$11.6 million, an increase of HK$3.2 million over the corresponding period in 2019.

PROSPECTS

The economies of many countries across the globe have been severely affected by the outbreak of the coronavirus over the first half of 2020. Indeed, the pandemic has brought much of global economic activity to a halt and therefore many countries have either recorded a sharp economic slowdown or even a recession. The outbreak in Mainland China and Macau appeared to be slowing down, allowing a gradual reopening of businesses. However, the outbreak in Hong Kong has yet been contained and the adverse impact of the pandemic on various businesses gradually emerges, with the latest unemployment rate already rising significantly to its highest level in more than 15 years having negative impact on the property market.

In Hong Kong, for the period under review, the Group's major development project located in Pokfulam Road, namely 63 Pokfulam, was completed, with over 95% of residential units sold. The remaining residential units at 63 Pokfulam will be gradually released onto the market for sale. The superstructure works for the Group's development project in Tseung Kwan O have been commenced and the launch of its presale is scheduled in the first half of 2021. As the outbreak has not yet been contained, it is expected that rental income from the Group's investment portfolio in Hong Kong will be adversely affected in the second half of 2020.

In Mainland China, with regards to the Group's redevelopment project in Shanghai, following completion of relocation works, demolition works and overall planning for the project in Shanghai are well underway. In Huizhou, the presale of two residential towers of the Phase 2 development of Le Cove Garden was launched in July 2020 and well received by the market, with satisfactory sales being recorded. In Wuxi, foundation works for the Phase 4 development of Le Cove City have been commenced and the presale is expected to be launched in the first half of 2021. In Shenyang, the Group will launch the presale of the Phase 3A development of The Gardenia in the fourth quarter of 2020.

The outlook for the major development projects and businesses through Polytec Asset, a 70.79%-owned listed subsidiary of the Company, is set out below:

- As the outbreak in Macau seems to be largely under control, the rental income generated from Polytec Asset's investment properties in Macau is expected to have only little impact in the second half of 2020.

- The income to be received from Polytec Asset's interest in the La Marina development project in Macau is expected to make an important contribution to Polytec Asset's results in the second half of 2020.

- The basic infrastructure works for the Zhongshan property development project are in progress, with site drainage works being well underway. The overall planning and design works for the project have already been commenced.

- Polytec Asset's oil business has been inevitably hit hard by the major suspension of world economic activities. As the world economy is not expected to recover in the short term, Polytec Asset will plan to terminate the oilfield operation in Kazakhstan. Since Polytec Asset has fully written off the remaining value of its oil assets, this segment will no longer have significant impact on Polytec Asset's overall results for the coming years.

- With regards to Polytec Asset's ice manufacturing and cold storage business, as the outbreak has not yet been contained in Hong Kong, its performance is expected to be adversely affected in the second half of 2020.

After the Distribution of Specie of the existing PAH Shares held by the Group, the Group will focus on its core property and property-related businesses.

While the Group is facing tough challenges, it will not stop actively exploring investment opportunities in the Greater China Region to create favourable conditions for the Group's future development when these economies recover.

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

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2020 together with the comparative figures for 2019 are as follows:

Consolidated Income Statement

		Six months ended 30 June	
		2020	2019
	Note	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**3,730,856**	5,664,767
Cost of sales		**(1,775,562)**	(3,145,305)
Other revenue		**37,034**	20,255
Other net expenses	*4*	**(8,445)**	(348,979)
Depreciation and amortisation		**(15,183)**	(11,455)
Staff costs		**(299,807)**	(99,489)
Selling, marketing and distribution expenses		**(200,169)**	(207,329)
Impairment of oil production and exploitation assets	*9*	**(59,463)**	–
Other operating expenses		**(96,996)**	(33,245)
Fair value changes on investment properties		**(331,022)**	100,281
Fair value changes on interests in property development		**(125,824)**	497,288
Profit from operations		**855,419**	2,436,789
Finance costs	*5*	**(95,508)**	(134,298)
Share of profits of associated companies		**9,333**	6,482
Share of profits of joint ventures		**19,862**	24,441
Profit before taxation		**789,106**	2,333,414
Income tax	*6*	**(190,432)**	(273,248)
Profit for the period		**598,674**	2,060,166
Attributable to:			
Shareholders of the Company		**575,369**	1,850,631
Non-controlling interests		**23,305**	209,535
Profit for the period		**598,674**	2,060,166
Earnings per share – Basic and diluted	*7*	**HK$0.49**	HK$1.57

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**598,674**	2,060,166
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	**(81,729)**	(15,036)
Share of other comprehensive income of joint ventures and associated companies	**(87,727)**	(16,510)
	(169,456)	(31,546)
Total comprehensive income for the period	**429,218**	2,028,620
Attributable to:		
Shareholders of the Company	**416,350**	1,821,006
Non-controlling interests	**12,868**	207,614
Total comprehensive income for the period	**429,218**	2,028,620

Consolidated Statement of Financial Position

	Note		**At 30 June 2020** **_HK$'000_** **_(unaudited)_**		At 31 December 2019 *HK$'000* *(audited)*
Non-current assets					
Investment properties			**10,097,400**		10,424,950
Property, plant and equipment	*9*		**497,206**		564,528
Oil exploitation assets	*9*		**–**		6,001
Interests in property development	*10*		**12,180,956**		12,606,030
Interest in joint ventures			**4,548,194**		4,621,186
Interest in associated companies			**1,430,667**		1,506,604
Other financial assets			**663,275**		161,050
Trade and other receivables	*11*		**87,340**		98,280
Loans and advances	*11*		**568,133**		484,891
Deferred tax assets			**36,714**		53,523
			30,109,885		30,527,043
Current assets					
Inventories		**13,566,415**		14,757,745	
Interests in property development	*10*	**1,746,743**		1,447,493	
Trade and other receivables	*11*	**965,644**		1,277,302	
Loans and advances	*11*	**19,608**		16,220	
Other financial assets		**26,257**		15,418	
Amount due from a related company		**280,000**		500,000	
Amounts due from joint ventures		**343,961**		316,005	
Pledged bank deposits		**–**		15,000	
Cash and bank balances		**2,026,682**		3,259,366	
		18,975,310		21,604,549	

	Note	At 30 June 2020 HK$'000 (unaudited)		At 31 December 2019 HK$'000 (audited)	
Current liabilities					
Trade and other payables	*12*	**2,478,735**		4,059,060	
Amount due to a joint venture		**439,546**		470,542	
Loan from an associated company		**43,374**		44,229	
Bank loans		**2,578,824**		1,526,686	
Current taxation		**754,068**		683,910	
		6,294,547		6,784,427	
Net current assets			**12,680,763**		14,820,122
Total assets less current liabilities			**42,790,648**		45,347,165
Non-current liabilities					
Loan from a related company		**752,011**		3,972,379	
Bank loans		**10,383,450**		9,433,422	
Other payables		**17,422**		17,688	
Deferred tax liabilities		**603,327**		602,328	
			11,756,210		14,025,817
NET ASSETS			**31,034,438**		31,321,348
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**18,212,686**		18,431,717
Total equity attributable to the shareholders of the Company			**26,849,176**		27,068,207
Non-controlling interests			**4,185,262**		4,253,141
TOTAL EQUITY			**31,034,438**		31,321,348

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 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 2019 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 2019 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 certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group.

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Segment reporting

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

– Property development segment (Hong Kong/Mainland China/Macau): the development and sale of properties and interests in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

– Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

– Oil segment: oil exploration and production.

– Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice 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 mainly 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	
	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15:		
Sale of properties	**2,933,754**	5,130,583
Sale of crude oil	**11,154**	26,039
Others	**281,840**	53,152
	3,226,748	5,209,774
Revenue from other sources:		
Distribution from interests in property development	**280,000**	220,000
Rental income	**139,068**	178,875
Others	**85,040**	56,118
	3,730,856	5,664,767

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 2020						
		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	**3,730,856**	**2,528,261**	**405,493**	**280,000**	**139,068**	**11,291**	**366,743**
Reportable segment profit	**1,457,022**	**987,327**	**15,383**	**283,795**	**155,532**	**(72,190)**	**87,175**
Other net expenses	**(8,445)**	**–**	**–**	**–**	**–**	**–**	**(8,445)**
Fair value changes on investment properties	**(331,022)**	**–**	**–**	**–**	**(331,022)**	**–**	**–**
Fair value changes on interests in property development	**(125,824)**	**–**	**8,659**	**(134,483)**	**–**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**(22,634)**	**–**	**–**	**–**	**(22,634)**	**–**	**–**
Head office and corporate expenses	**(84,483)**						
Finance costs	**(95,508)**						
Profit before taxation	**789,106**						
Share of profits of associated companies	**9,333**	**–**	**9,333**	**–**	**–**	**–**	**–**
Share of profits of joint ventures	**19,862**	**–**	**7,677**	**–**	**12,185**	**–**	**–**
Impairment of oil production and exploitation assets	**(59,463)**	**–**	**–**	**–**	**–**	**(59,463)**	**–**

	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)	–	–	–	–

3 Segment reporting *(continued)*

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

	At 30 June 2020						
		Property development					
	Consolidated	**Hong Kong**	**Mainland China**	**Macau**	**Property investment**	**Oil**	**Others**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Reportable segment assets	**46,856,619**	**6,175,541**	**14,633,846**	**12,483,257**	**11,910,387**	**19,146**	**1,634,442**
Deferred tax assets	**36,714**						
Cash and bank balances	**2,026,682**						
Head office and corporate assets	**165,180**						
Consolidated total assets	**49,085,195**						
Interest in associated companies	**1,430,667**	**–**	**1,428,312**	**–**	**–**	**–**	**2,355**
Interest in and amounts due from joint ventures	**4,892,155**	**–**	**3,390,588**	**–**	**1,501,567**	**–**	**–**

	At 31 December 2019						
		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	48,682,467	7,233,511	15,246,353	12,838,355	12,255,615	95,051	1,013,582
Deferred tax assets	53,523						
Pledged bank deposits	15,000						
Cash and bank balances	3,259,366						
Head office and corporate assets	121,236						
Consolidated total assets	52,131,592						
Interest in associated companies	1,506,604	–	1,504,249	–	–	–	2,355
Interest in and amounts due from joint ventures	4,937,191	–	3,413,775	–	1,523,416	–	–

4 Other net expenses

Other net expenses mainly represent the write down of inventories of HK$Nil (six months ended 30 June 2019: HK$348,979,000).

5 Finance costs

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interest on bank loans	**189,306**	202,098
Interest on loans from related companies	**17,861**	40,777
Less: Amount capitalised	**(111,659)**	(108,577)
	95,508	134,298

6 Income tax

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current tax		
Provision for Profits Tax		
– Hong Kong	**169,420**	327,335
– Outside Hong Kong	**(921)**	1,416
	168,499	328,751
Land appreciation tax ("LAT")	**–**	1,610
Deferred tax	**21,933**	(57,113)
	190,432	273,248

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2019: 16.5%) of the estimated assessable profits for the six months ended 30 June 2020. 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$575,369,000 (six months ended 30 June 2019: HK$1,850,631,000) and the weighted average number of ordinary shares in issue during the period of 1,176,631,296 (six months ended 30 June 2019: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2020 and 2019.

8 Dividends

(a) Interim dividend by way of cash

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK$0.24 (six months ended 30 June 2019: HK$0.24) per share	**282,392**	282,392

(b) Special dividend by way of distribution in specie

A special dividend has been declared after the interim period in the form of a distribution in specie on the basis of 2.67 ordinary shares of Polytec Asset Holdings Limited (Stock Code: 208), with market value of approximately of HK$1.95 based on latest share price, for every 1 ordinary share of the Company (six months ended 30 June 2019: Nil).

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

9 Oil production assets and oil exploitation assets

As at 30 June 2020, the oil production assets (included in property, plant and equipment) and oil exploitation assets were fully depreciated and impaired (31 December 2019: net book values of HK$60,705,000 and HK$6,001,000 respectively). 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. A discounted cash flow model was adopted consistently as previous years which was prepared by the experienced technical and professional team of the Group and reviewed by the Directors of the Company although no independent valuation report was produced. Discounted cash flow model is a commonly used valuation method for oil companies worldwide to determine the recoverable amount of the oil production and exploitation assets during the oil production stage. Under the discounted cash flow model, the recoverable amount 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, etc. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and that all relevant licences and permits are obtained. However, the business environment including the crude oil price is affected by a wide range of global and domestic factors which are all beyond the control of the Group. Any adverse changes in the key assumptions could increase the impairment provision.

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

The gas flaring permit allowing flaring of associated gas necessary for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of PAH (70.79% owned by the Group), in Kazakhstan will expire on 31 December 2020. As construction of the pipes to the gas processing plant for processing the associated gas was completed by Caspi Neft TME by the end of 2019, the historic issue regarding the treatment and utilisation of associated gas had been solved permanently. As a result, the Group considers that the gas flaring permit could be successfully renewed yearly in future.

As at 30 June 2020, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and whether the carrying values of the oil production and exploitation assets exceeded the estimated recoverable amounts. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (31 December 2019: 12.5%) consistently adopted by the Group, which was within the normal range of the discount rates commonly used in the discounted cash flow models by the oil companies in Kazakhstan. Based on the assessment, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by HK$59,463,000 as at 30 June 2020 (31 December 2019: HK$231,573,000) which was mainly due to the declining crude oil price forecast. The forecast future crude oil prices as at 30 June 2020 obtained from the Oil Price Forecast of Bloomberg, an independent and internationally reliable source, were found to have dropped as compared to those at 31 December 2019 (30 June 2020: US$39.02 – US$71.47 per barrel; 31 December 2019: USD61.79 – USD74.01 per barrel). In this regard, the future revenue and cash inflow generated therefrom would be decreased and hence the net present value of the estimated future cash flows arising from the oil production and exploitation assets would be lowered which would adversely affect the recoverable amount in the discounted cash flow model accordingly. Other than the forecast future crude oil prices, other key assumptions such as the future capital expenditure to be incurred and the development plan had not been materially changed in the model as compared to those as at 31 December 2019.

Accordingly, impairment losses for oil production assets and oil exploitation assets amounting to HK$54,214,000 (31 December 2019: HK$210,731,000) and HK$5,249,000 (31 December 2019: HK$20,842,000) respectively, are provided and recognised as a separate line item in the Group's consolidated income statement.

Crude oil price assumptions were based on market expectations. At 30 June 2020, it is estimated that an increase/decrease of 20% (31 December 2019: 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 HK$48,934,000/HK$Nil (31 December 2019: HK$127,200,000/HK$66,706,000). 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 2019: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have no effect on the carrying amounts of the oil production and exploitation assets (31 December 2019: decreased by HK$7,546,000/increased by HK$8,822,000).

10 Interests in property development

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**14,053,523**	13,837,954
Distributions	**(280,000)**	(720,000)
Change in fair value recognised in profit or loss	**154,176**	935,569
Net changes in fair value	**(125,824)**	215,569
At 30 June/31 December	**13,927,699**	14,053,523
Representing:		
Non-current assets	**12,180,956**	12,606,030
Current assets	**1,746,743**	1,447,493
	13,927,699	14,053,523

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

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 Company, 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. Regarding the civil claim filed by PCL against the Macau SAR Government to seek compensation for losses and damage on the development project at Lote P on 29 November 2018, an unfavourable judgement was issued by the Tribunal Administrative (the Administrative Court) in Macau on 30 March 2020. With regard to this, a petition for appeal was submitted to the Court of Second Instance in Macau on 29 May 2020.

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 2020.

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 2020, pursuant to the co-investment agreement, distribution of HK$280,000,000 (six months ended 30 June 2019: HK$220,000,000) was made by one of the wholly owned subsidiaries of Polytec Holdings to the Company, 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 2020 amounted to HK$280,000,000 (six months ended 30 June 2019: HK$220,000,000).

As at 30 June 2020, interests in property development of HK$1,746,743,000 (31 December 2019: HK$1,447,493,000) 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 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Current	**879,525**	935,898
Within 3 months	**24,679**	18,845
3 months to 6 months	**916**	3,983
More than 6 months	**15,104**	11,251
Trade receivables and loans and advances	**920,224**	969,977
Utility and other deposits	**63,837**	186,571
Prepaid tax	**98,610**	89,021
Other receivables and prepayments	**558,054**	631,124
	1,640,725	1,876,693
Representing:		
Non-current assets	**655,473**	583,171
Current assets	**985,252**	1,293,522
	1,640,725	1,876,693

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 31 December 2019, included in utility and other deposits was a deposit of HK$161,095,000 paid to Polytec Holdings for the proposed acquisition of 60% interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of loans from Polytec Holdings. The proposed acquisition was terminated in January 2020 and the deposit was refunded to the Group accordingly.

12 Trade and other payables

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

	At 30 June 2020 *HK$'000*	At 31 December 2019 *HK$'000*
Not yet due or on demand	**1,778,677**	1,736,530
Within 3 months	**8,111**	3,503
3 months to 6 months	**222**	107
More than 6 months	**3**	24
Trade payables	**1,787,013**	1,740,164
Rental and other deposits	**75,983**	78,278
Other payables and accrued expenses	**321,871**	328,268
Contract liabilities – deposits received on sale of properties	**293,868**	1,912,350
	2,478,735	4,059,060

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$12,962 million as at 30 June 2020 (31 December 2019: HK$10,960 million), comprising of HK$2,579 million repayable within one year and HK$10,383 million repayable after one year. Taking into account of cash and bank balances with an amount of HK$2,027 million, the Group's net bank borrowings position was HK$10,935 million as at 30 June 2020. Loans from related companies amounted to HK$752 million as at 30 June 2020.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loans from related companies less amounts due from related companies over equity attributable to shareholders of the Company) was 42.5% as at 30 June 2020 (31 December 2019: 41.3%).

During the period, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK$1,356 million to the Group. Furthermore, the Group has recorded of approximately HK$54 million cash inflows mainly from sales/presales of various development projects in Mainland China.

During the period, distribution of HK$280 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$671 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 2020, 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 2020, the Group had commitments mainly in connection with the Group's investment properties amounting to HK$23 million.

Pledge of assets

As at 30 June 2020, properties having a value of HK$15,000 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$558 million, representing a 50% proportional guarantee in respect of HK$1,117 million term loan facilities. The facilities were not yet utilised as at 30 June 2020.

As at 30 June 2020, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK$49 million.

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 2020. 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

Throughout the six months ended 30 June 2020, 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 has performed the combined role as the chairman of the Board 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 2019.

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 2020.

Publication of Interim Report

The Interim Report 2020 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 2020.

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

Hong Kong, 19 August 2020

As at the date of this announcement, the Directors of the Company are Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Lam Yung Hei as Executive Directors; Ms Ng Chi Man and Mr Yeung Kwok Kwong as Non-executive Directors; and Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw as Independent Non-executive Directors.