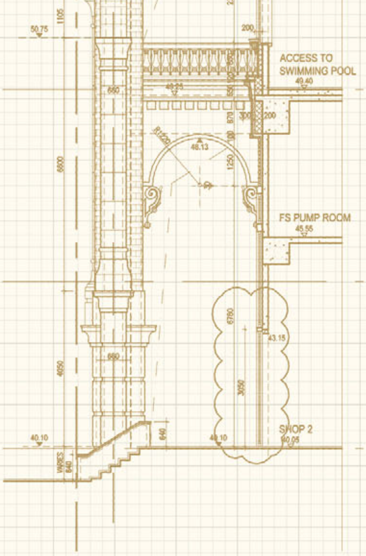
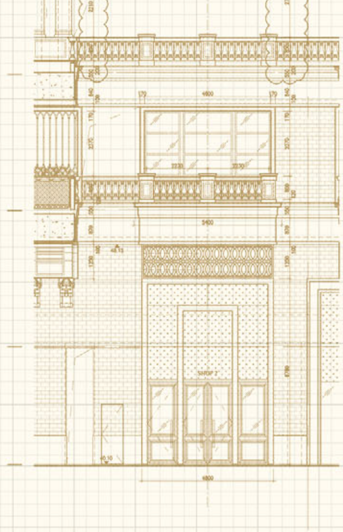
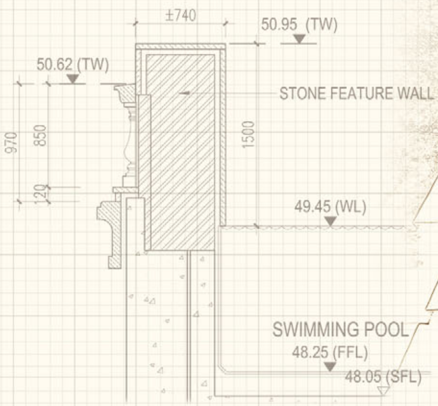
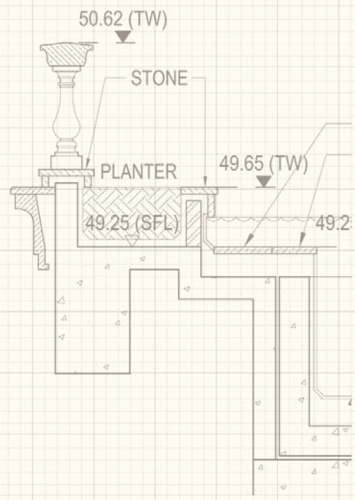
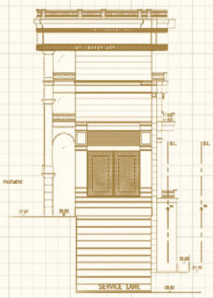


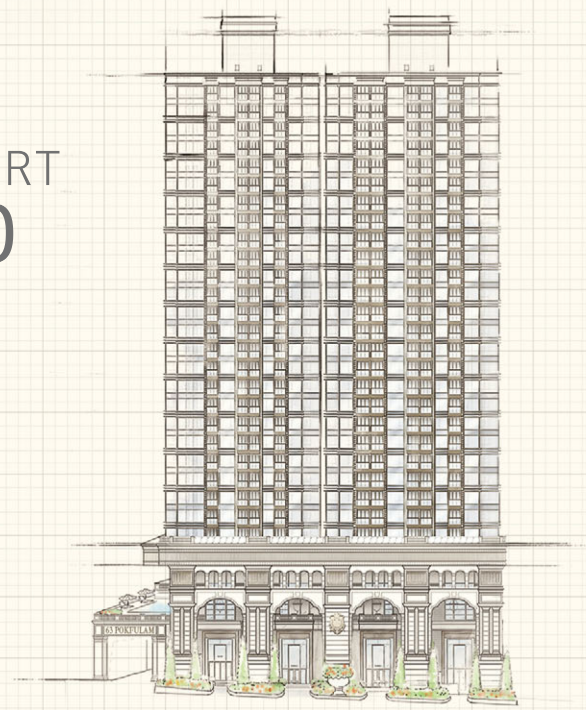






INTERIM 中期報告 REPORT 2020





九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

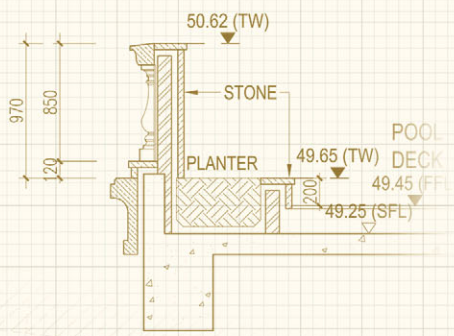
Stock Code 股份代號: 34

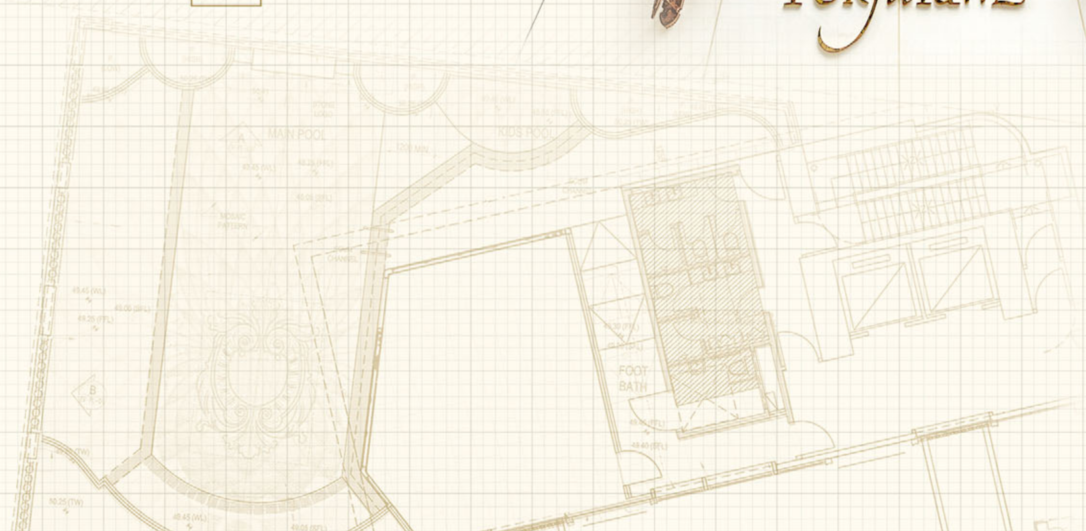
Kowloon Development Company Limited

九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has 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 property development, property investment and property management in the Greater China Region. It is determinedly committed to enhancing its competitive position, with its landbank amounting to approximately 3.4 million sq m of attributable gross floor area in Hong Kong and Mainland China as of 30 June 2020. The Group is also engaged in financial investments and investment holding.

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，集團主要於大中華地區從事物業發展、物業投資及物業管理業務。集團致力提升本身之競爭優勢，截至二零二零年六月三十日，其於香港及中國大陸土地儲備之應佔樓面面積約3,400,000平方米。集團亦從事金融投資及投資控股業務。





Contents

63 Pokfulam (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

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary
Mr Lee Kuen Chiu

Independent Auditor
KPMG
Public Interest Entity Auditor
registered in accordance with
the Financial Reporting Council Ordinance

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
Bank of China
Bank of Communications
Bank of East Asia
China Construction Bank (Asia)
Chong Hing Bank
Hang Seng Bank
Shanghai Rural Commercial Bank
Standard Chartered Bank
United Overseas Bank

Financial Calendar for Interim Results 2020

Interim results announcement	19 August 2020
Ex-dividend date for interim and special interim dividends	9 October 2020
Closure of register of members	13 October 2020 – 14 October 2020 (both dates inclusive)
Interim and special interim dividends payable	30 October 2020

Le Cove Garden (Huizhou)

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:
- Tseung Kwan O
- Clear Water Bay Road

Development Landbank:
244,000 sq m

Property Investment
Flagship investment property:
- Pioneer Centre

Investment Landbank:
55,000 sq m

Property Management
Properties under management:
1,467,000 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:
2,950,000 sq m

FINANCIAL INVESTMENTS

Fixed-income and equity investments in Hong Kong and other recognised financial markets

POLYTEC ASSET HOLDINGS LIMITED
Stock Code: 208
70.79%

MAINLAND CHINA PROPERTY

Property Development
Major development project:
- Zhongshan (Zhongshan)

Development Landbank:
208,000 sq m

MACAU PROPERTY

Property Investment
Major investment property:
- The Macau Square

Investment Landbank:
13,000 sq m

OTHERS

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

Financial Investments
Fixed-income and equity investments in Hong Kong and other recognised financial markets

Oil
Oil production and exploration in Kazakhstan

The development of this project is under the co-investment agreement with Polytec Holdings International Limited.

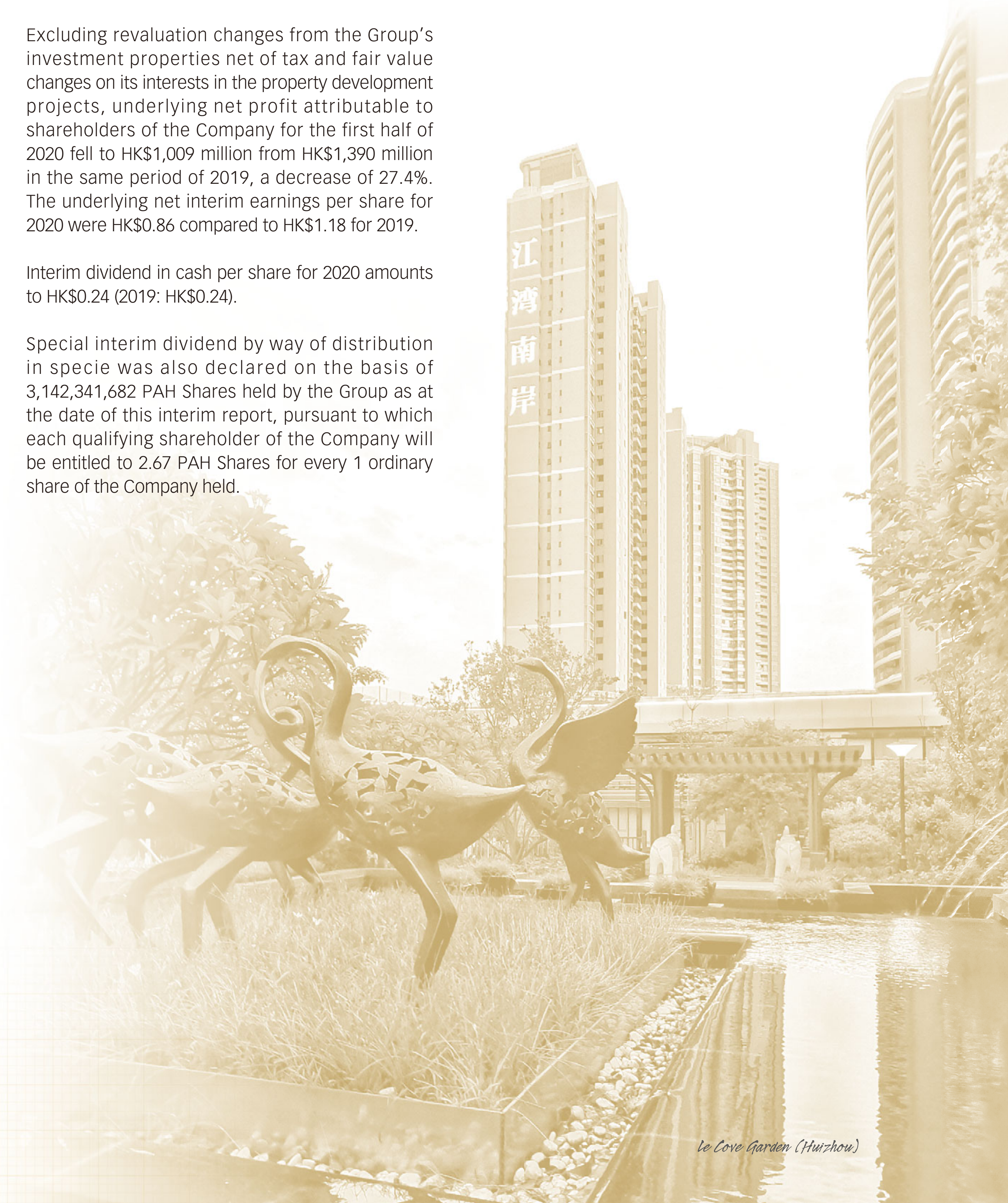
Highlights

- 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 interim report, 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.



Le Cove Garden (Huizhou)

Chairman's Statement

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 interim report 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 interim report, 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 interim report, 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.

INTERIM RESULTS AND DIVIDEND *(CONTINUED)*

As at the date of this interim report, 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 interim report 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.

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

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
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.

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 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 on Pok Fu Lam 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.

PROSPECTS *(CONTINUED)*

After the Distribution in 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.

Or Wai Sheun
Chairman

Hong Kong, 19 August 2020

Clubhouse at 63 Pokfulam (Hong Kong)

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.

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2020 $'000 (unaudited)	2019 $'000 (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(a)	**(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)
Other operating expenses		**(96,996)**	(33,245)
Impairment of oil production and exploitation assets	9	**(59,463)**	–
Fair value changes on investment properties	8	**(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	4(b)	**(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	4	**789,106**	2,333,414
Income tax	5	**(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	6	**$0.49**	$1.57

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	
	2020	2019
	$'000	$'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

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 2020 $'000 (unaudited)		At 31 December 2019 $'000 (audited)	
Non-current assets					
Investment properties	8		**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	11		**663,275**		161,050
Trade and other receivables	13		**87,340**		98,280
Loans and advances	13		**568,133**		484,891
Deferred tax assets			**36,714**		53,523
			30,109,885		30,527,043
Current assets					
Inventories	12	**13,566,415**		14,757,745	
Interests in property development	10	**1,746,743**		1,447,493	
Trade and other receivables	13	**965,644**		1,277,302	
Loans and advances	13	**19,608**		16,220	
Other financial assets	11	**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	
Current liabilities					
Trade and other payables	14	**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

	Note	At 30 June 2020 $'000 (unaudited)		At 31 December 2019 $'000 (audited)	
Non-current liabilities					
Loan from a related company	15	**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

Approved and authorised for issue by the board of directors on 19 August 2020.

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						
		Share capital $'000	Capital reserve $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
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 and 1 July 2019		8,636,490	(176,595)	55,122	18,393,864	26,908,881	4,246,965	31,155,846
Changes in equity for the six months ended 31 December 2019								
Profit for the period		–	–	–	599,102	599,102	2,708	601,810
Other comprehensive income		–	–	(157,384)	–	(157,384)	(7,890)	(165,274)
Total comprehensive income		–	–	(157,384)	599,102	441,718	(5,182)	436,536
Dividends approved in respect of the current year	7(a)	–	–	–	(282,392)	(282,392)	–	(282,392)
Dividends paid/payable to non-controlling interests		–	–	–	–	–	(16,856)	(16,856)
Acquisition of subsidiaries		–	–	–	–	–	28,214	28,214
At 31 December 2019		8,636,490	(176,595)	(102,262)	18,710,574	27,068,207	4,253,141	31,321,348
(unaudited)								
At 1 January 2020		**8,636,490**	**(176,595)**	**(102,262)**	**18,710,574**	**27,068,207**	**4,253,141**	**31,321,348**
Changes in equity for the six months ended 30 June 2020								
Profit for the period		**–**	**–**	**–**	**575,369**	**575,369**	**23,305**	**598,674**
Other comprehensive income		**–**	**–**	**(159,019)**	**–**	**(159,019)**	**(10,437)**	**(169,456)**
Total comprehensive income		**–**	**–**	**(159,019)**	**575,369**	**416,350**	**12,868**	**429,218**
Dividends approved in respect of the previous year	7(b)	**–**	**–**	**–**	**(635,381)**	**(635,381)**	**–**	**(635,381)**
Dividends paid/payable to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**(80,747)**	**(80,747)**
At 30 June 2020		**8,636,490**	**(176,595)**	**(261,281)**	**18,650,562**	**26,849,176**	**4,185,262**	**31,034,438**

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	
	2020	2019
	$'000	$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	**631,807**	3,178,333
Investing activities		
Decrease in pledged bank deposits	**15,000**	289,158
Purchase of debt investments	**(499,190)**	–
Other cash flows arising from investing activities	**(55,104)**	3,654
Net cash (used in)/generated from investing activities	**(539,294)**	292,812
Financing activities		
Drawdown of bank loans	**2,075,558**	3,107,000
Repayment of bank loans	**(48,299)**	(6,488,993)
(Decrease)/Increase in loans from related companies	**(2,653,328)**	637,591
Other cash flows arising from financing activities	**(712,683)**	(695,233)
Net cash used in financing activities	**(1,338,752)**	(3,439,635)
Net (decrease)/increase in cash and cash equivalents	**(1,246,239)**	31,510
Cash and cash equivalents at 1 January	**3,259,366**	1,068,348
Effect of foreign exchange rate changes	**(19,288)**	(1,572)
Cash and cash equivalents at 30 June	**1,993,839**	1,098,286
Analysis of balances of cash and cash equivalents at 30 June		
Cash and bank balances	**2,026,682**	1,098,286
Less: Deposits over 3 months	**(32,843)**	–
Cash and cash equivalents	**1,993,839**	1,098,286

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

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

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.

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 2019 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 2019 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 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 of amendments to 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, 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.

3 Segment reporting *(Continued)*

(a) Disaggregation of revenue

	Six months ended 30 June	
	2020	2019
	$'000	$'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 $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 $'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)	–	–	–	–

3 Segment reporting *(Continued)*

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

	At 30 June 2020						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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 Profit before taxation

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

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

(b) Finance costs

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

Remark: Borrowing costs were capitalised at rates of 1.79% – 5.70% (six months ended 30 June 2019: 2.04% – 6.65%) per annum.

(c) Other items

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Rentals receivable under operating leases less outgoings	**(114,106)**	(162,008)
Rental income	**(139,068)**	(178,875)
Less: Outgoings	**24,962**	16,867
Depreciation and amortisation (Remark)	**24,522**	19,975
Interest income	**(85,040)**	(56,568)

Remark: Cost of sales includes $9,339,000 (six months ended 30 June 2019: $8,521,000) relating to depreciation and amortisation expenses.

5 Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June 2020 $'000	2019 $'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.

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 $575,369,000 (six months ended 30 June 2019: $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.

7 Dividends

(a) Dividends attributable to the interim period

(i) Interim dividend by way of cash

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

(ii) 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 $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.

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

	Six months ended 30 June	
	2020	2019
	$'000	$'000
Final dividend in respect of the previous financial year, approved during the interim period, of $0.54 (six months ended 30 June 2019: $0.50) per share	**635,381**	588,316

8 Investment properties

The investment properties of the Group were revalued at 30 June 2020 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 loss of $331,022,000 (six months ended 30 June 2019: revaluation gain of $100,281,000) were recognised in the consolidated income statement for the six months ended 30 June 2020.

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 $60,705,000 and $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.

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 Polytec Asset Holdings Limited (70.79% owned by the Group), in Kazakhstan will expired 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.

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

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 $59,463,000 as at 30 June 2020 (31 December 2019: $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: USD39.02 – USD71.47 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 $54,214,000 (31 December 2019: $210,731,000) and $5,249,000 (31 December 2019: $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 $48,934,000/$Nil (31 December 2019: $127,200,000/$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 $7,546,000/increased by $8,822,000).

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 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.

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. 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.

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 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 agreements, distribution of $280,000,000 (six months ended 30 June 2019: $220,000,000) was made by one of the wholly owned subsidiaries of Polytec Holdings to the Group, 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 $280,000,000 (six months ended 30 June 2019: $220,000,000).

As at 30 June 2020, interests in property development of $1,746,743,000 (31 December 2019: $1,447,493,000) was expected to be recoverable within one year and was classified as current assets.

11 Other financial assets

	At 30 June 2020 $'000	At 31 December 2019 $'000
Non-current		
Debt investments measured at amortised cost		
Listed debt securities in Hong Kong	**34,695**	34,401
Listed debt securities outside Hong Kong	**628,580**	126,649
	663,275	161,050
Current		
Debt investments measured at amortised cost		
Unlisted debt securities	**12,207**	–
Equity investments measured at fair value through profit or loss		
Listed equity securities in Hong Kong	**14,050**	15,418
	26,257	15,418
Total	**689,532**	176,468
Market value of listed debt securities	**749,012**	167,298

12 Inventories

	At 30 June 2020 $'000	At 31 December 2019 $'000
Land and properties held for future development	**4,485,074**	4,494,635
Properties under development	**7,397,501**	8,486,061
Properties held for sale	**1,668,642**	1,766,575
Trading goods and consumables	**15,198**	10,474
	13,566,415	14,757,745

The amount of land/properties held for future development and properties under development expected to be recovered after more than one year is $4,485,074,000 (31 December 2019: $4,494,635,000) and $7,397,501,000 (31 December 2019: $7,115,008,000) respectively. All of the other inventories are expected to be recovered within one year.

13 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 $'000	At 31 December 2019 $'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

13 Trade and other receivables/Loans and advances *(Continued)*

As at 31 December 2019, included in utility and other deposits was a deposit of $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.

Utility and other deposits of the Group of $10,452,000 (31 December 2019: $8,250,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $99,839,000 (31 December 2019: $8,124,000) 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.

14 Trade and other payables

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

	At 30 June 2020 $'000	At 31 December 2019 $'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

15 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.

16 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

	At 30 June 2020 $'000	At 31 December 2019 $'000
Assets		
Level 1		
Other financial assets		
– Listed equity securities in Hong Kong	**14,050**	15,418
Level 3		
Interests in property development	**13,927,699**	14,053,523

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

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

	2020 **$'000**	2019 $'000
At 1 January	**14,053,523**	13,837,954
Distributions	**(280,000)**	(720,000)
Changes 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

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 2020, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying properties at 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 $158,444,000/$161,028,000 (31 December 2019: $184,691,000/$184,691,000).

17 Capital commitments

Capital commitments outstanding at the end of the reporting period contracted but not provided for in the financial statements amounted to $23,427,000 (31 December 2019: $25,203,000).

18 Contingent liabilities

As at 30 June 2020, the Group has provided guarantees of $558,328,000 (31 December 2019: $569,339,000) representing a 50% proportional guarantee in respect of an aggregate of $1,116,655,000 term loan facilities (31 December 2019: $1,138,677,000) to a joint venture in Mainland China. The facilities were not yet utilised at 30 June 2020 and 31 December 2019.

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 $48,890,000 (31 December 2019: $54,654,000).

19 Pledge of assets

As at 30 June 2020, properties having a value of approximately $15,000,266,000 (31 December 2019: $15,168,213,000) and bank deposits of $Nil (31 December 2019: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

20 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 2020, 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 2019: $3,007,000,000).

(c) As at 30 June 2020, loans to joint ventures of $417,916,000 (31 December 2019: $417,916,000) were unsecured, interest bearing at fixed rates and were not expected to be repaid within one year. During the period ended 30 June 2020, interest income of $14,815,000 (six months ended 30 June 2019: $8,033,000) was recognised in profit or loss. As at 30 June 2020, the amounts due from joint ventures of $343,961,000 (31 December 2019: $316,005,000) and the amount due to a joint venture of $439,546,000 (31 December 2019: $470,542,000) were unsecured, interest free and recoverable/repayable on demand.

(d) As at 30 June 2020, loan to an associated company of $333,212,000 (31 December 2019: $395,902,000) 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 2020, interest income of $1,077,000 (six months ended 30 June 2019: $1,703,000) was recognised in profit or loss included in the share of profits of associated companies. As at 30 June 2020, accumulated accrued interest income of approximately RMB1,042,000,000 (31 December 2019: RMB995,000,000) 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 2020, 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 $56,441,000 (six months ended 30 June 2019: $58,956,000).

(e) As at 30 June 2020, properties with an aggregate value of $1,145,394,000 (31 December 2019: $1,145,394,000) were held on trust by the subsidiaries of Polytec Holdings.

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 2020 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 2020 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, 19 August 2020

Other Information

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.

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 as 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, Mr Li Kwok Sing, Aubrey, an Independent Non-executive Director of the Company, has retired as an independent non-executive director of Tai Ping Carpets International Limited and Kunlun Energy Company Limited (both listed on the Stock Exchange of Hong Kong) since 18 May 2020 and 27 May 2020 respectively.

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 2020, 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 2020.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2020, 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 2020.

(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 2020. 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 2020, 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 2020, 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 2020.

(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 2020, 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 2020, the Group had a total of 3,185 employees (31 December 2019: 3,062 employees), of which 2,967 were Hong Kong staff, 129 were Mainland China staff and 89 were staff in other regions. The increase in headcount was mainly to match business growth. During the period, total staff costs increased to HK$328 million (30 June 2019: HK$125 million) due to salary revisions in July 2019 and an increase in headcount. 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 which organises events for employees to promote team spirit and loyalty and encourage communication among departments.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 13 October 2020 to Wednesday, 14 October 2020, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to qualify for the interim and special interim dividends, 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 Monday, 12 October 2020.

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

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