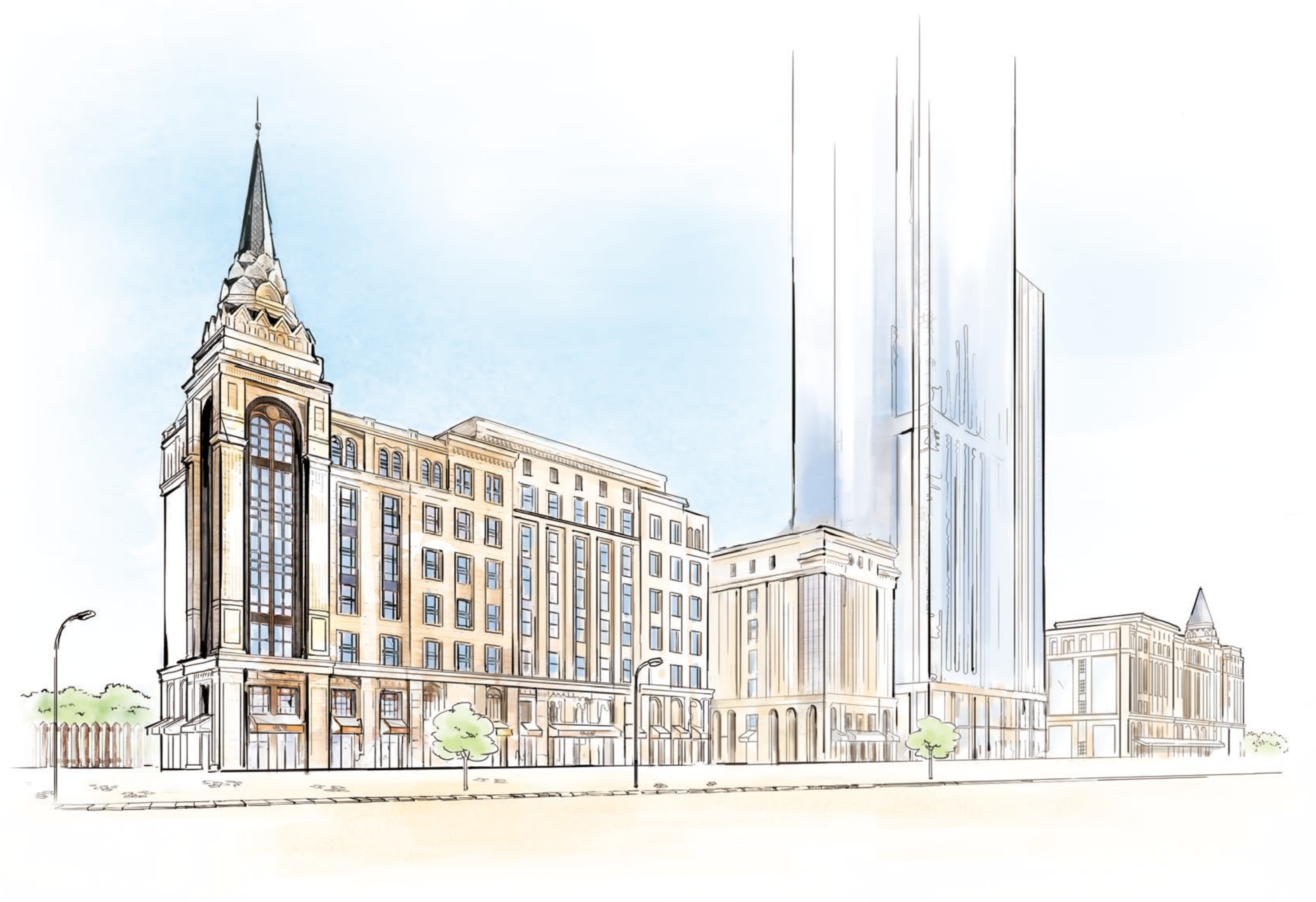
九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

ANNUAL REPORT
年報 2020



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 been 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 Hong Kong and Mainland China. It is determinedly committed to enhancing its competitive position, with its landbank amounting to approximately 3.7 million sq m of attributable gross floor area in Hong Kong and Mainland China as at 31 December 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，集團主要於香港及中國大陸從事物業發展、物業投資及物業管理業務。集團致力提升本身之競爭優勢，截至二零二零年十二月三十一日，其於香港及中國大陸土地儲備之應佔樓面面績約3,700,000平方米。集團亦從事金融投資及投資控股業務。


City Plaza 城市廣場(Tianjin 天津)

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

Corporate Information

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

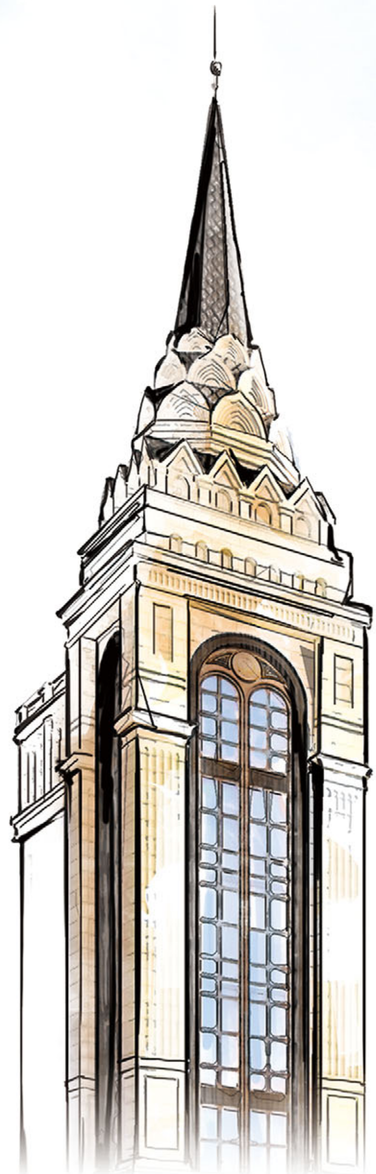
The Stock Exchange of Hong Kong Limited: 34

Principal Bankers

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

Financial Calendar

Interim results announcement	19 August 2020
Interim and special interim dividends paid	30 October 2020
Annual results announcement	31 March 2021
2021 Annual General Meeting	2 June 2021
Ex-dividend date for final dividend	7 June 2021
Closure of register of members	
– 2021 Annual General Meeting	28 May 2021 – 2 June 2021 (both dates inclusive)
– Final dividend	9 June 2021 – 10 June 2021 (both dates inclusive)
Final dividend payable	25 June 2021



Artist's Impression of City Plaza (Tianjin)

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
- High Street☆
- Clear Water Bay Road

Development Landbank:
247,000 sq m

Property Investment

Flagship investment property:

- Pioneer Centre

Investment Landbank:
55,000 sq m

Property Management

Properties under management:
1,475,000 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）
- Yangpu (Shanghai)
  楊浦（上海）
- Jiexiu (Shanxi)
  介休（山西）

Development Landbank:
3,406,000 sq m

FINANCIAL INVESTMENTS

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

☆ The redevelopment of this project is under the cooperation agreement with Mr Or Pui Kwan.
The development of this project is under the co-investment agreement with Polytec Holdings International Limited.

Highlights

- With substantially less sale proceeds from its development projects being recognised for the year under review, the Group's net profit attributable to shareholders of the Company amounted to HK$801 million compared to HK$2,450 million in 2019, a decrease of 67.3%.

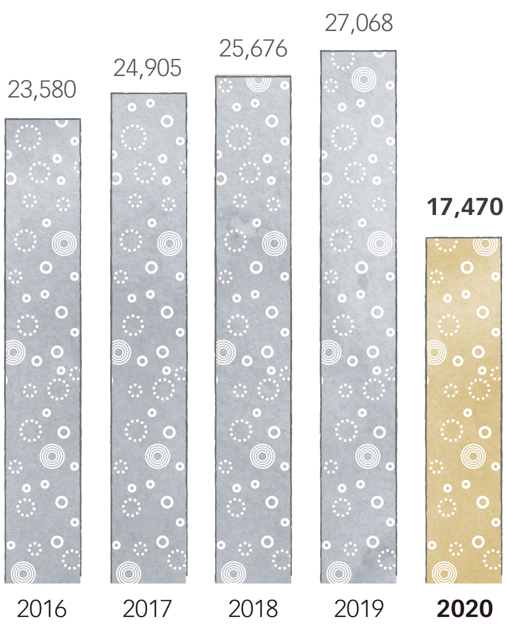
- Excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for 2020 fell to HK$1,299 million from HK$2,600 million in 2019, a decrease of 50.0%. The underlying net earnings per share for 2020 were HK$1.10 compared to HK$2.21 in 2019.

- Final dividend in cash of HK$0.56 per share is proposed. Full year dividend in cash for 2020 amounts to HK$0.80 per share. In addition, the Special Interim Dividend in Kind of 2.67 ordinary shares of Polytec Asset (Stock Code: 208) per share was distributed on 30 October 2020.

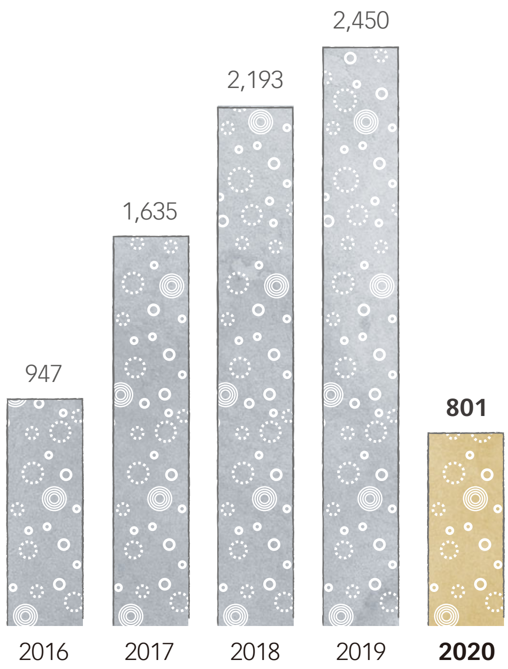
63 Pokfulam (Hong Kong)

Five-Year Financial Summary

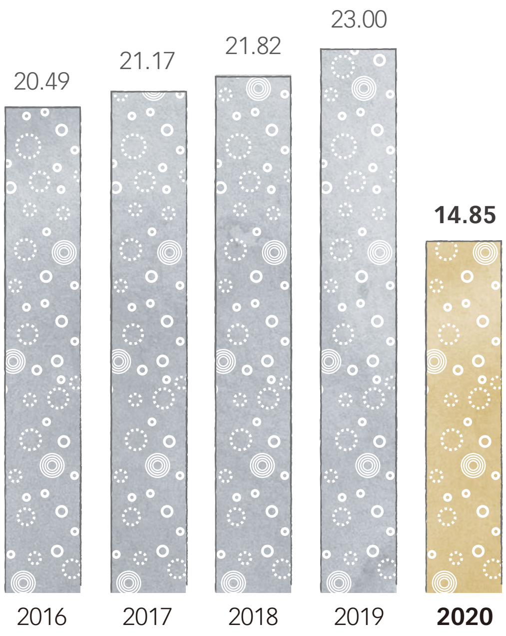
Shareholders' Equity
HK$ million



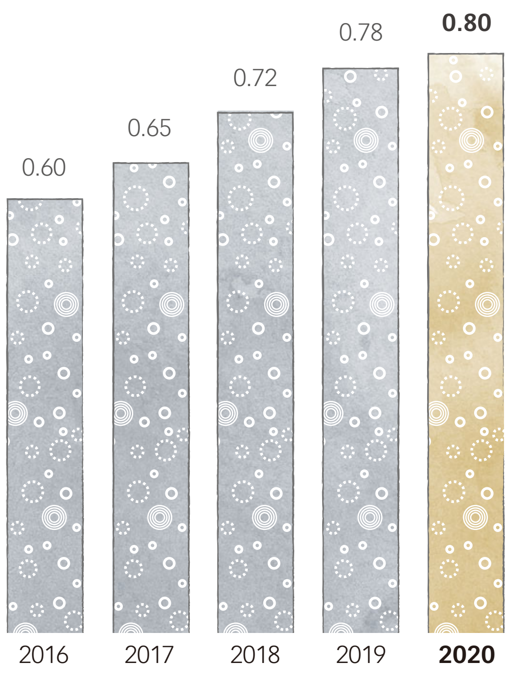
Profit Attributable to Shareholders
HK$ million



Net Asset Value per Share
HK$



Dividends per Share (Cash)
HK$ (Note 2)



Five-Year Financial Summary

Key Consolidated Income Statement Data

HK$ million	2016	2017	2018	2019	**2020**
Revenue	6,778	3,120	2,842	11,624	**5,012**
Profit from Operations	796	446	2,533	3,430	**1,243**
Profit Attributable to Shareholders	947	1,635	2,193	2,450	**801**
Earnings per Share *(HK$)*	0.82	1.41	1.86	2.08	**0.68**
Underlying Profit Attributable to Shareholders *(Note 3)*	818	1,525	1,711	2,600	**1,299**
Underlying Earnings per Share *(HK$) (Note 3)*	0.71	1.31	1.45	2.21	**1.10**
Dividends (Cash)	690	765	847	918	**941**
Dividends per Share (Cash) *(HK$) (Note 2)*	0.60	0.65	0.72	0.78	**0.80**

Key Consolidated Statement of Financial Position Data

HK$ million	2016	2017	2018	2019	**2020**
Non-Current Assets	31,783	29,546	31,527	30,527	**17,114**
Current Assets	14,876	19,540	25,935	21,605	**16,990**
Total Assets	46,659	49,086	57,462	52,132	**34,104**
Current Liabilities	(8,810)	(13,070)	(14,159)	(6,785)	**(9,164)**
Non-Current Liabilities	(10,758)	(7,720)	(13,478)	(14,026)	**(7,352)**
Net Assets	27,091	28,296	29,825	31,321	**17,588**
Share Capital	8,417	8,636	8,636	8,636	**8,636**
Reserves	15,163	16,269	17,040	18,432	**8,834**
Shareholders' Equity	23,580	24,905	25,676	27,068	**17,470**
Non-controlling Interests	3,511	3,391	4,149	4,253	**118**
Total Equity	27,091	28,296	29,825	31,321	**17,588**
Net Asset Value per Share *(HK$)*	20.49	21.17	21.82	23.00	**14.85**
Gearing Ratio *(%) (Note 4)*	49.29	46.76	66.24	41.28	**65.47**

Notes:

1. The financial information in this summary is extracted from the published financial statements for the last five years.
2. In 2018, a special interim dividend was distributed by way of distribution in specie of shares in Polytec Asset Holdings Limited ("PAH") held by the Group on the basis of 1 ordinary share of PAH for every 10 ordinary shares of the Company.
   In 2020, a special interim dividend was distributed by way of distribution in specie of shares in PAH held by the Group on the basis of 2.67 ordinary shares of PAH for every 1 ordinary share of the Company. As a result, PAH no longer a subsidiary of the Company after distribution in specie of shares in PAH on 30 October 2020. Five-Year financial summary contains continuing operations and discontinued operations.
3. Underlying profit excludes revaluation of investment properties and interests in property development.
4. Gearing ratio represents bank borrowings, loans from related companies/ultimate holding company and a fellow subsidiary less amounts due from related companies/fellow subsidiaries and net of cash and bank balances over equity attributable to shareholders of the Company.

Chairman's Statement

Artist's Impression of Phase 3 development of le Cove City (Wuxi)

Group Results and Dividends

For the year ended 31 December 2020, the Group's net profit attributable to shareholders of the Company amounted to HK$801 million compared to HK$2,450 million in 2019, a decrease of 67.3%. 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 2020 fell to HK$1,299 million from HK$2,600 million in 2019, a decrease of 50.0%. The underlying net earnings per share for 2020 were HK$1.10 compared to HK$2.21 in 2019.

The Board of Directors has recommended the payment of a final dividend in cash of HK$0.56 (2019: HK$0.54) per share for the year ended 31 December 2020. Together with the 2020 interim dividend in cash of HK$0.24 (2019: HK$0.24) per share and a special interim dividend by way of distribution in specie (the "Special Interim Dividend in Kind") distributed on the basis of 2.67 ordinary shares of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208) for every 1 ordinary share of the Company held, the full year dividend in cash for 2020 amounts to HK$0.80 (2019: HK$0.78) per share plus the Special Interim Dividend in Kind (2019: Nil).

Note that the Special Interim Dividend in Kind would represent a total of HK$4.00 per share in cash, based on the payment of the cancellation price of HK$1.50 per share of Polytec Asset proposed by its controlling shareholder for privatising Polytec Asset, which was stated in the announcement of Polytec Asset dated 21 January 2021, subject to completion of the privatisation of Polytec Asset.

The final dividend will be payable on Friday, 25 June 2021 to shareholders whose names appear on the Register of Members of the Company on Thursday, 10 June 2021, subject to the approval of shareholders at the 2021 Annual General Meeting.

Market Overview and Business Review

The property markets in Hong Kong and Mainland China were adversely affected to varying degrees by the outbreak of the coronavirus in early 2020. The pandemic was largely contained in Mainland China in the middle of 2020 and the residential market regained strength in the second half of 2020, with transaction volume having rebounded substantially.

In Hong Kong, as the epidemic has not fully been contained so far, the social distancing, border control and associated quarantine measures are still in place and therefore there is still no sign of a meaningful economic recovery. However, due to the prevailing ultra-low borrowing costs, the overall property sales activity picked up considerably in the second half following a deep slump in the first half of 2020. Nevertheless, both the full-year overall transaction volume and the average transaction price in the residential property market remained stable in 2020.

Development Property Sales

In Hong Kong, the Group's wholly-owned high-end residential development project, namely 63 Pokfulam, was completed in February 2020, with over 90% of the residential units being sold and total sale proceeds of approximately HK$2.70 billion being recognised for the year ended 31 December 2020.

In Mainland China, there was only a small portion of sale proceeds from the remaining units of various development projects being recognised in 2020.

Property Development

As announced on 23 October 2020, the Group entered into the cooperation agreement with Mr Or Pui Kwan, an Executive Director of the Company, pursuant to which the Group and Mr Or Pui Kwan will cooperate in connection with the redevelopment of 2B, 2C, 4, 4B, 6 and 6A High Street, Sai Ying Pun, Hong Kong which covers a total site area of approximately 508 sq m.

In October 2020, the Group successfully acquired four parcels of land located in Jiexiu, Shanxi Province through public tender. The four parcels of land combined covers a total site area of approximately 181,013 sq m.

Property Investment in Hong Kong

Due to the outbreak of the coronavirus, total retail sales in Hong Kong plummeted by a record 24.3% in value for 2020. The impacts of the pandemic on the economy were broad-based. In particular, the retail sector was severely hit, with a record-low tourist arrivals and social distancing and related measures significantly dampening consumer sentiment. The Group's income from its investment property portfolio was adversely affected for the year under review.

Gross rental income generated from the Group's investment property portfolio in Hong Kong for 2020 fell to HK$293 million from HK$357 million in 2019, a decrease of 17.9%, with a decline in the overall occupancy rate. The decrease in rental income was partly due to the rent concessions granted to tenants during this difficult time over the past year.

Artist's Impression of a panoramic view of Phase 1 (completed) and Phase 2 development of Le Cove Garden (Huizhou)

Financial Investments

Total net income generated from the Group's financial investment activities amounted to HK$74 million for the year ended 31 December 2020, including net income of HK$43 million generated by Polytec Asset, which has ceased to be a subsidiary of the Company since 30 October 2020.

Discontinued Business Operations – Polytec Asset

Following the distribution of the Special Interim Dividend in Kind on 30 October 2020, the Group no longer has any interest in Polytec Asset, the then 70.79%-owned listed subsidiary of the Company, and the underlying net profit attributable to the Group from Polytec Asset amounted to approximately HK$193 million for the period up to the distribution in 2020.

Business Strategy

The Company has been engaged in property investment and investment holding with the operation of its business mainly in Hong Kong since its establishment. It has been 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 Hong Kong and Mainland China. It is also engaged in financial investments and investment holding.

Prospects

It appears that the outbreak of the coronavirus started in early 2020 has not been effectively contained so far in most parts of the world and the outlook for the global economy remains uncertain. It remains to be seen if major economies are able to gradually recover in the rest of this year, which would mainly depend on the effectiveness of the vaccines and their vaccination rates.

In Hong Kong, the superstructure works for the Group's wholly-owned residential development project in Tseung Kwan O are well underway and the Group intends to launch the presale in the fourth quarter of 2021.

In Mainland China, the overall property market regained strength in the third quarter following a considerable decline in the transaction volume in the first half of 2020 due to the pandemic. With favourable market sentiment, the presale of the Phase 2 residential development of Le Cove Garden in Huizhou and the Phase 3A (South Block) residential development of The Gardenia in Shenyang have been launched respectively and they were well received by the market. The construction works for the Phase 4 development of Le Cove City in Wuxi are in progress and the presale of a portion of residential units is expected to be launched in the second half of 2021. The overall planning for the Group's redevelopment project in Shanghai is in progress, with the relocation works and demolition works having been completed.

For the year under review, the Group acquired two development projects in Hong Kong and Mainland China respectively. In Hong Kong, the Group acquired 60% interests in a residential and commercial redevelopment project on High Street in Sai Ying Pun, covering a total site area of approximately 508 sq m which is intended to be developed into a high-end residential tower with a few retail shops.

In Mainland China, the Group acquired four parcels of land for residential and commercial uses in Jiexiu, Shanxi Province through a public tender, with a total site area of approximately 181,013 sq m. The combined site is intended to be developed into a landmark residential and commercial complex or community in the area of Jiexiu, covering a total gross floor area exceeding 400,000 sq m. The presale of the first phase of development is expected to be launched in the middle of 2021.

Following the distribution of the Special Interim Dividend in Kind on 30 October 2020, the Group no longer has any interests in the assets and businesses operated by Polytec Asset. The Group will continue to focus on its core property and property-related businesses in Hong Kong and Mainland China, aiming to replenish its quality landbank in the coming year.

On behalf of the Board, I would like to express my sincere gratitude to all of our staff for the dedication and contributions.

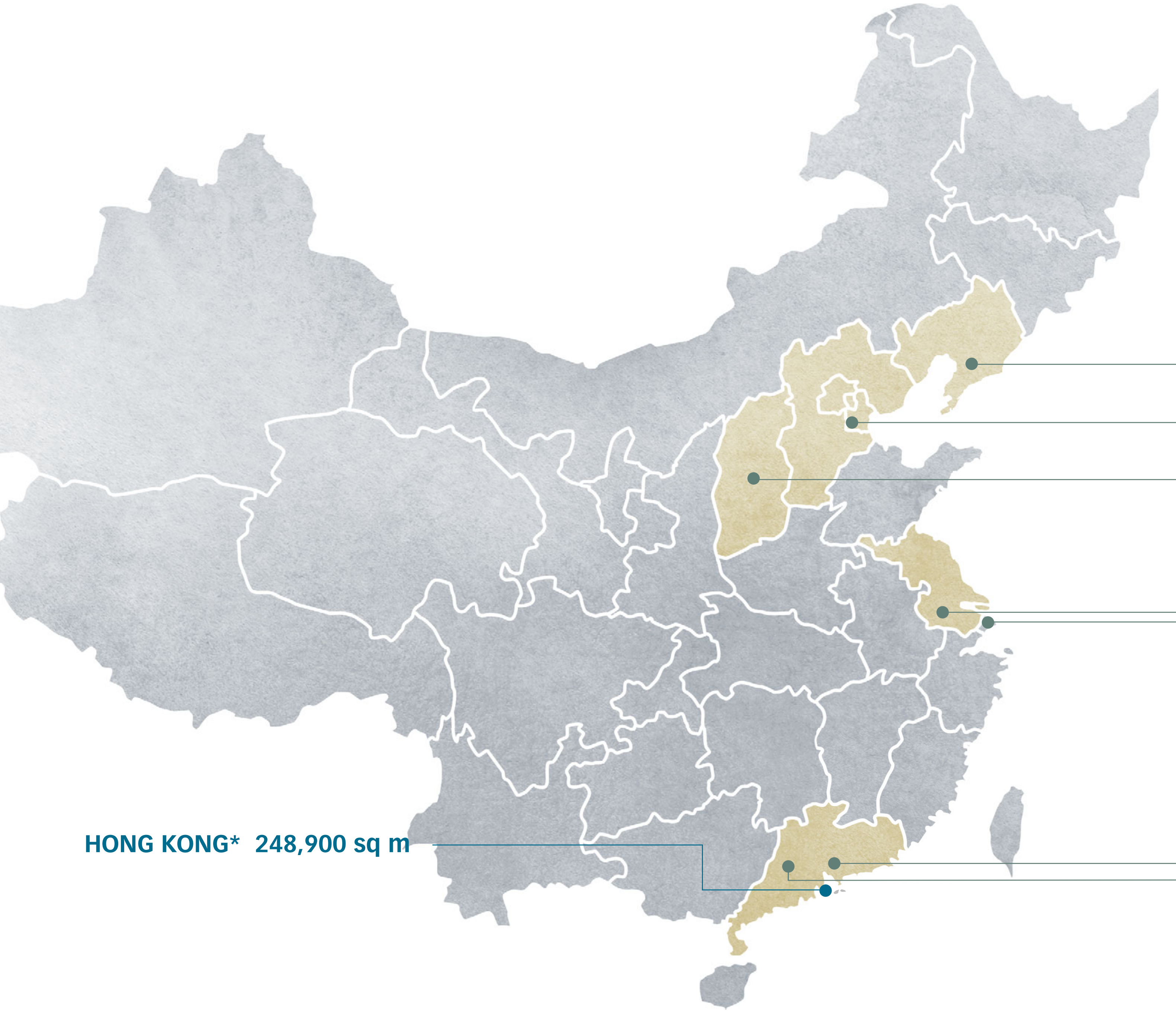
Or Wai Sheun
Chairman

Hong Kong, 31 March 2021

Artist's Impression of Phase 4 development of Le Cove City (Wuxi)

Review of Operations

Group's major projects under development in the Greater China Region



* representing 100% project coverage in total gross floor area

MAINLAND CHINA* 6,623,600 sq m

Shenyang 2,712,000 sq m

Tianjin 850,000 sq m

Jiexiu 463,100 sq m

Wuxi 365,000 sq m

Shanghai 113,600 sq m

Huizhou 519,900 sq m

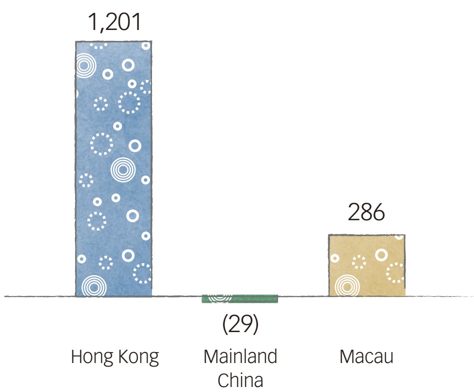
Foshan 1,600,000 sq m

Key Operating Results for 2020

Total operating profit in the property development segment amounted to HK$1,458 million, which was mainly generated from development projects in Hong Kong and Macau.

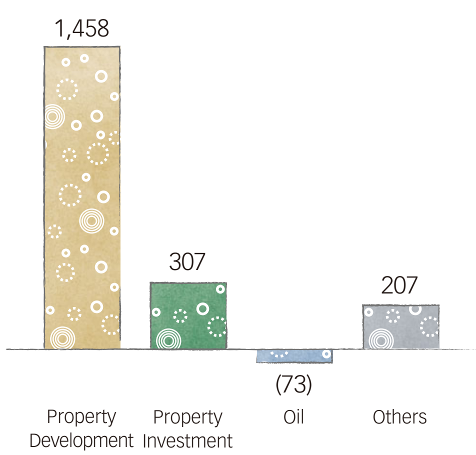
Operating Profit/(Loss) – Property Development Geographic Distribution for 2020

HK$ million



Operating Profit/(Loss) by Segment for 2020

HK$ million



Property Development

As at 31 December 2020, the Group's landbank for development amounted to approximately 3.7 million sq m of attributable gross floor area. The Group's major property projects under planning and development are set out as follows:

Hong Kong

Tseung Kwan O Project

The site is located at 1 Shek Kok Road in Tseung Kwan O. It is being developed into two high-rise residential towers with car parking spaces, covering a total gross floor area of approximately 48,200 sq m. This residential development project is wholly-owned by the Group.

Location
1 Shek Kok Road, Tseung Kwan O, New Territories, Hong Kong

Usage
Residential

Group's Interest
100%

Approx. Total Site Area
9,635 sq m

Approx. Total Gross Floor Area
48,200 sq m

Project Status
Superstructure works in progress

Expected Date of Completion
End-2021/Early-2022

High Street Project

The project is located at 2B, 2C, 4, 4B, 6 and 6A High Street in Sai Ying Pun. It is intended to be developed into a high-end residential tower with a few retail shops covering a total gross floor area of approximately 4,267 sq m which is calculated based on the plot ratio of 8.4. The Group has a 60% interest in this redevelopment project.

Location
2B, 2C, 4, 4B, 6 and 6A High Street, Sai Ying Pun, Hong Kong

Usage
Residential and Commercial

Group's Interest
60%

Approx. Total Site Area
508 sq m

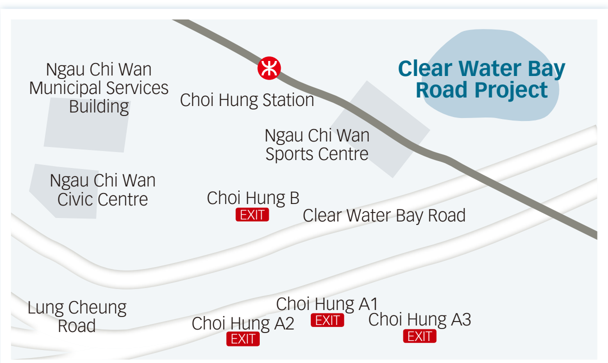
Approx. Total Gross Floor Area
4,267 sq m

Project Status
Acquired over 90% units and compulsory sale for remaining units in progress

Expected Date of Completion
To be determined

Clear Water Bay Road Project

The site is located at 35 Clear Water Bay Road in Ngau Chi Wan. The General Building Plan for this residential and commercial development project including a shopping arcade, clubhouse and car parking facilities with a total gross floor area of approximately 196,400 sq m has been approved. The project is wholly-owned by the Group.



Location
35 Clear Water Bay Road, Ngau Chi Wan, Kowloon, Hong Kong

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
19,335 sq m

Approx. Total Gross Floor Area
196,400 sq m

Project Status
Land premium negotiation in progress

Expected Date of Completion
To be determined

Mainland China

Le Cove City (Shenyang)
江灣城(瀋陽)

The site is located along the Hun River at 6 Hun Nan Er Road of the Hun Nan Xin District in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned total gross floor area of approximately 712,000 sq m.

Location
6 Hun Nan Er Road, Hun Nan Xin District, Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
165,303 sq m

Approx. Total Gross Floor Area
712,000 sq m

Approx. Total Gross Floor Area Booked
368,554 sq m

Project Status
Planning and design works for Phase 5 in progress

Expected Date of Completion
Phase 5 2023

Artist's Impression of Phase 5 development

The Gardenia (Shenyang)
翠堤灣(瀋陽)

The site is located on the west side of Daba Road of the Shenhe District, which is one of the five main central districts in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned total gross floor area of approximately 2,000,000 sq m.

Location
West of Daba Road, Shenhe District, Shenyang, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
1,100,000 sq m

Approx. Total Gross Floor Area
2,000,000 sq m

Approx. Total Gross Floor Area Booked
603,827 sq m

Project Status
Superstructure works for Phase 3A (South Block) in progress

Expected Date of Completion
Phase 3A (South Block) 2021/2022

Artist's Impression of Phase 3 development

Artist's Impression of Phase 3 development

Le Cove Garden (Huizhou)
江灣南岸花園(惠州)

The site is located at Dongjiang North Shore Wangjiang Lot of the Huicheng District in Huizhou and has a permanent natural river view at its south east side, with provincial park facilities and convenient traffic to the central business district of Dongjiang North Shore in Huizhou. The Group has a 60% interest in this residential and commercial development project, with a total gross floor area of approximately 519,900 sq m.

Location
Dongjiang North Shore, Wangjiang Lot, Huicheng District, Huizhou, China

Usage
Residential and Commercial

Group's Interest
60%

Approx. Total Site Area
146,056 sq m

Approx. Total Gross Floor Area
519,900 sq m

Approx. Total Gross Floor Area Booked
245,800 sq m

Project Status
Superstructure works for Phase 2 in progress

Expected Date of Completion
Phase 2 2021; Phase 3 2023

Artist's Impression of Phase 2 development

The Lake (Foshan)
山語湖(佛山)

The site is located in the Nanhai District of Foshan, with a sizeable site area of approximately 4,020,743 sq m. This is a joint venture residential and commercial development project of the Group. The site is endowed with unique geographical advantages, surrounded by lakes, a wetland nature reserve zone and woods. It is being developed as one of the most emblematic residential communities in Foshan, with a total gross floor area of approximately 1,600,000 sq m.

Location
Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, China

Usage
Residential and Commercial

Group's Interest
50%

Approx. Total Site Area
4,020,743 sq m

Approx. Total Gross Floor Area
1,600,000 sq m

Approx. Total Gross Floor Area Booked
852,346 sq m

Project Status
Superstructure works for Phase 3 in progress

Expected Date of Completion
Phase 3 2022

Artist's Impression

Le Cove City (Wuxi)
江灣城（無錫）

The site is located in the Chong An District, a central business district of Wuxi, with a total site area amounting to approximately 68,833 sq m. This residential and commercial development project is wholly-owned by the Group, with a total gross floor area of approximately 365,000 sq m.

Location
Tongyun Road and Gongyun Road, Chong An District, Wuxi, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
68,833 sq m

Approx. Total Gross Floor Area
365,000 sq m

Approx. Total Gross Floor Area Booked
110,510 sq m

Project Status
Foundation works for Phase 3 and Phase 4 in progress

Expected Date of Completion
Phase 3 and Phase 4 2023 – 2025

Artist's Impression of Phase 4 development

Artist's Impression of Phase 4 development

City Plaza (Tianjin)
城市廣場(天津)

The site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group and has a total gross floor area of approximately 850,000 sq m. It is being developed into a modern residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade.

Location
Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, China

Usage
Residential and Commercial

Group's Interest
49%

Approx. Total Site Area
135,540 sq m

Approx. Total Gross Floor Area
850,000 sq m

Approx. Total Gross Floor Area Booked
243,476 sq m

Project Status
Foundation works for Phase 3B in progress

Expected Date of Completion
Phase 3A 2023; Phase 3B 2025

Artist's Impression of Phase 3 development

Yangpu Project (Shanghai)
楊浦項目（上海）

The site is located in the Yangpu District, Shanghai. This residential and commercial development project is wholly-owned by the Group with combined total gross floor area of approximately 113,600 sq m including an underground gross floor area of approximately 39,035 sq m. It is expected to develop into a block of residential building and two blocks of office building.

Location
176 Jiefang, Siping Road, Yangpu District, Shanghai, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
21,427 sq m

Approx. Total Gross Floor Area
113,600 sq m

Project Status
Master planning in progress

Expected Date of Completion
2023/2024

Jiexiu Project (Shanxi)
介休項目（山西）

The site is located in the north-west of Jiexiu, Shanxi Province which is about 3.7 kilometres from the city centre. This residential and commercial development project is wholly-owned by the Group, with a total gross floor area of approximately 463,100 sq m. It is intended to be developed into a landmark residential and commercial complex or community in the area of Jiexiu.

Location
South of Public Security Bureau,
West of Wenyuan Street,
East of Sanxian Avenue,
North of Jie Highway, Jiexiu, China

Usage
Residential and Commercial

Group's Interest
100%

Approx. Total Site Area
181,013 sq m

Approx. Total Gross Floor Area
463,100 sq m

Project Status
Development in multi-phase;
foundation works in progress

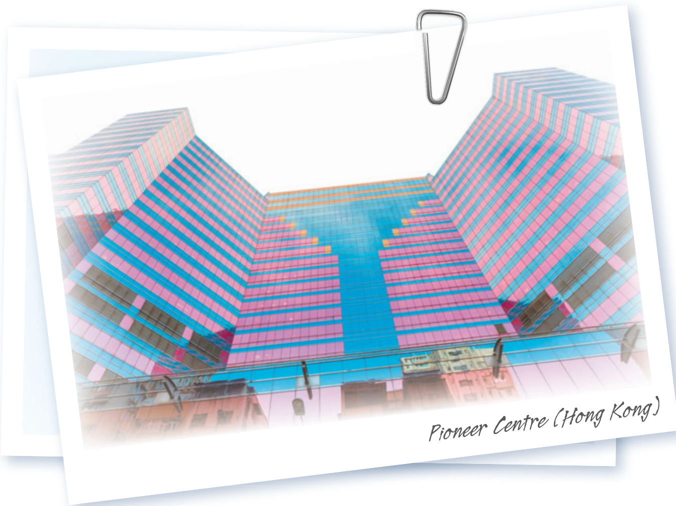
Expected Date of Completion
2023 – 2026

Property Investment

In Hong Kong, gross rental income generated from the Group's investment property portfolio for 2020 fell to HK$293 million from HK$357 million in 2019, a decrease of 17.9%, with a decline in the overall occupancy rate. The decrease in rental income was partly due to the rent concessions granted to tenants during this difficult time over the past year.

Property Management

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2020, the total area of properties under management was maintained at approximately 1,475,000 sq m (2019: 1,632,000 sq m).



Pioneer Centre (Hong Kong)

Key Risk and Uncertainties

The Group faces various risks including those specific to the property development business as well as those that are common to other businesses. The Group's risk management and internal control systems are in place to ensure principal risks as well as significant emerging risks are identified, monitored and managed on a continuous basis. The principal risks and uncertainties set out below may have material impacts on the Group's businesses, operating results, financial position or prospects, but they are by no means exhaustive or comprehensive.

Property Development Risk

Similar to other property developers, the Group's performance depends mainly on local property market conditions and overall economic environment, which may be adversely affected by the coronavirus disease 2019 ("COVID-19") pandemic and US-China trade dispute. Other risks include political and social stability, governmental policies, property cooling measures, as well as the taxes and stamp duties imposed on the sales of residential properties in the geographical areas of the Group's operations.

The profitability of the Group may also be hindered by rising construction costs and sub-contracting charges and keen competition from other property developers. A significant adverse financial impact may arise if any of our construction projects is not able to be completed on schedule or within budget. The Group's prospects are also subject to the supply of land affected by land policies in different geographical areas.

Regulatory Risk

The Group operates in highly-regulated markets and industries where changes to the regulatory environment may have significant impacts on our businesses. We have to ensure we can comply with all the regulatory requirements including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as well as legal, tax, environmental and any other statutory requirements for our various kinds of businesses in different jurisdictions.

Key Risk and Uncertainties (Continued)

People Risk

The Group's future development is materially affected by whether it can recruit, retain, develop and motivate competent and qualified staff at various levels. The shortage or loss of key personnel may harm the Group's existing operations and prospects.

Financial Risk

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's businesses. The analysis of these risks is illustrated in the notes to the financial statements in detail.

Business Partner Risk

Some of the Group's businesses are conducted through non wholly-owned companies or joint ventures in which the Group shares control with other business partners or exercises only limited controls under the co-investment agreements. The relevant risks include that these business partners may not continue their relationships with the Group, take actions against the Group's interests, undergo a change of control or not fulfil their obligations under the joint ventures.

Information Security Risk

The Group's computer system and data are exposed to unauthorised access or damage caused by cyber threats, especially nowadays the worldwide cybercrime and malware attack happen more frequently. Failure in protecting the computer system and data of the Group may lead to loss or leakage of critical data or even disruptions of normal operations of the business.

Environmental and Social Compliance

Environmental Policies and Performances

The Group is dedicated to high standards of environmental protection. By minimising the impact to our community and conserving resources amongst employees and tenants, we are striving to improve our environmental performance continually. Since 2007, the Group has become a corporate member of WWF-Hong Kong, supporting the Non-Governmental Organisation's works on conservation and education. The Group adopts a holistic and proactive approach towards environmental management, undertaking stringent measures to ensure both new and existing developments comply with the regulatory requirements. To show our commitment to sustainable development, we are currently working on developing environmental targets.

The Group is committed to conserving the environment and seeking continual improvement in environmental matters. To enhance environmental protection awareness at the workplace, we promote the use of electronic communication in our Hong Kong offices via the intranet system for documental approval and policy or news sharing, encourage our employees to switch off the lights, air conditioning and other unused office equipment when leaving the office, use recycled paper or double-sided for printing and copying. In addition, the establishment of the waste recycling systems such as the recycling of take-away containers in the headquarters and the participation in other local recycling programmes for the major properties under our management has demonstrated the Group's dedication to enhance waste reduction and promote a sustainability mind-set. We also work and communicate closely with our contractors to minimise generation of effluent and waste.

Compliance with Laws and Regulations

As far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations that has a significant impact on the businesses and operations of the Group during the financial year.

Relationships with Stakeholders

The Group has an integrated human capital strategy to recruit, develop and motivate employees, making sure that employees are provided with competitive remuneration package, appropriate training and development opportunities and their performance goals are aligned with the Group's business objectives. The Group is committed to providing a work environment that is free from all forms of discrimination. As stated in the internal policies, the Group forbids all forms of discrimination on gender, religion, race, family status, disability and age at all time during recruitment, promotion, internal transfer and resignation. Management and staff at all levels are responsible to ensure all employees are working in compliance with the statutory requirements, arrange adequate resources to fulfil the safety requirements and carry out training and supervision. Furthermore, we have improved our internal communication through the intranet system to strengthen and enhance communication amongst staff.

The Group is also dedicated to providing high quality properties, products and services to meet our customers' needs and is striving to maintain good relationship and close communication with our business partners, banks, contractors and vendors so as to achieve this goal for our customers.

Additionally, communication with our stakeholders is particularly critical as the Group sets forth its sustainability framework. Therefore, we conduct stakeholder survey annually to further gauge their perspectives on the Group's environmental and social material issues. Based on the accumulated result of the annual survey, we have constructed a systematic materiality assessment as a bridge to better address various stakeholders' concerns.

Apart from the Group's continuous efforts towards improvement in relationship with its stakeholders, the Group is also committed to delivering support to the needs of the community. The Company has been awarded as a "Caring Company" since 2009 in recognition of our achievement in corporate social responsibility. In 2020, we have donated to domestic charities and our employees have participated in a number of community activities.

Response to COVID-19 Pandemic

The outbreak of COVID-19 pandemic has induced unprecedented impacts and challenges socially and economically. It has always been the Group's responsibility and priority to support the community. In an effort to enhance the society's resilience, the Group has implemented a number of responsive measures to safeguard the health of its stakeholders such as customers and employees during the reporting year. For our offices, construction sites and buildings under our management, we sterilised the public area frequently and provided hand sanitisers, face masks, gloves and personal protective equipment to staff to prevent transmission of pathogen. We also measured the body temperature of staff and requested all office visitors to complete a health declaration form. In addition, we provided contingency manual and trainings to staff regarding the proper handling of COVID-19. With the commitment to community care, we have donated anti-epidemic supplies such as hand sanitiser to non-profit organisations and underprivileged.

Environmental, Social and Governance Reporting

In accordance with the requirement set out in the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules, a separate Environmental, Social and Governance Report will be published on the Company's website and the website of Hong Kong Exchanges and Clearing Limited. The report highlights the continual efforts of the Group in improving operations consisting of comprehensive environmental and social performance indicators, further demonstrating our dedication in building a sustainable future.

Human Resources

As at 31 December 2020, since Polytec Asset was no longer a subsidiary of the Company, the total headcount of the Group decreased to 2,906 employees (2019: 3,062 employees), of which 2,782 were Hong Kong staff and 124 were Mainland China staff. As the first full year of the staff costs of Easy Living Consultant Limited, which became a subsidiary of the Company in August 2019, was booked by the Group in 2020, the total staff costs increased to HK$670 million (2019: HK$410 million). Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

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

In addition, the Group established a recreation club and conducted a Christmas lucky draw for employees during the year to promote team spirit and loyalty and encourage communication among departments.

Financial Review

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$11,875 million as at 31 December 2020 (31 December 2019: HK$10,960 million), comprising of HK$5,748 million repayable within one year and HK$6,127 million repayable after one year. Taking into account of cash and bank balances with an amount of HK$1,134 million, the Group's net bank borrowings position was HK$10,741 million as at 31 December 2020. Loan from a related company amounted to HK$695 million as at 31 December 2020.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from a related company less amount due from a related company over equity attributable to shareholders of the Company) was 65.5% as at 31 December 2020 (31 December 2019: 41.3%). The increase was mainly due to the Group distributing all its 70.79% equity interests in Polytec Asset Holdings Limited (Stock Code: 208) through distribution in specie during 2020.

During the year, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK$1,880 million to the Group. Furthermore, the Group recorded approximately HK$198 million cash inflows mainly from sales/presales of various development projects in Mainland China.

During the year, distribution of HK$280 million was received from a wholly owned subsidiary of a related company to the Group in relation to the development project at La Marina.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$1,765 million for construction costs during the year.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and will consider engaging in relevant hedging arrangements when considered appropriate.

With the investments in Mainland China, the Group is exposed to exchange fluctuations in Renminbi ("RMB"). Using revenue and cash generated from the development projects in Mainland China and/or external borrowings in RMB, serves as a natural hedge against the exchange rate risk of RMB.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows from 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 31 December 2020, the Group had commitments mainly in connection with the Group's investment properties amounting to HK$22 million.

Pledge of assets

As at 31 December 2020, properties having a value of HK$13,690 million and deposits of HK$14 million were pledged to banks and insurance companies mainly to secure banking facilities extended to the Group.

Contingent liabilities

As at 31 December 2020, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK$26 million.

Profile of Directors

Board of Directors

Executive Directors

Mr OR Wai Sheun, aged 69, is the *Chairman* of the Company. He has been an *Executive Director* since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr Or is also the chairman of Polytec Asset Holdings Limited (listed on the Stock Exchange of Hong Kong). He is the sole shareholder and a director of New Explorer Developments Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), and a director of Intellinsight, the substantial shareholder of the Company, and certain subsidiaries of the Group as well. Mr Or has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Mainland China and Macau. He is the spouse of Ms Ng Chi Man, the father of Mr Or Pui Kwan and the father-in-law of Mr Lam Yung Hei.

Mr LAI Ka Fai, aged 56, has been an *Executive Director* of the Company since January 2002. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Lai is also a non-executive director of Polytec Asset Holdings Limited (listed on the Stock Exchange of Hong Kong) and a director of Intellinsight Holdings Limited, the substantial shareholder of the Company, and certain subsidiaries of the Group. He has over 30 years of experience in finance, accounting, financial and operational management and corporate planning. Mr Lai graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr OR Pui Kwan, aged 42, has been an *Executive Director* of the Company since September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or joined the Company in May 2003 and is also a director of certain subsidiaries of the Group. He has attained solid working experience in various companies engaged in property development, securities investment, information technology, product research and development. Mr Or holds a Bachelor of Combined Science degree from the University College London. He has also obtained an Executive MBA degree from the Kellogg School of Management at Northwestern University and the School of Business and Management at the Hong Kong University of Science and Technology. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Lam Yung Hei.

Mr LAM Yung Hei, aged 41, has been an *Executive Director* of the Company since July 2016. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company, and overseeing construction management of the Group. Mr Lam is also a director of certain subsidiaries of the Group. He has over 15 years of experience in Hong Kong property development, merger and acquisition and information technology. Mr Lam holds a Master of Commerce (Information Systems and Management) degree and a Bachelor of Science (Computer Science) degree both from University of New South Wales, Sydney. He is the son-in-law of Mr Or Wai Sheun and Ms Ng Chi Man and the brother-in-law of Mr Or Pui Kwan.

Non-executive Directors

Ms NG Chi Man, aged 68, has been an Executive Director of the Company since January 2002 and re-designated as a *Non-executive Director* of the Company since April 2013. She is also a director of New Explorer Developments Limited, the sole shareholder of Intellinsight Holdings Limited ("Intellinsight"), Intellinsight, the substantial shareholder of the Company, and certain subsidiaries of the Group. Ms Ng has over 35 years of experience in property development, industrial and financial investment business in Hong Kong, Mainland China and Macau. She is the spouse of Mr Or Wai Sheun, the mother of Mr Or Pui Kwan and the mother-in-law of Mr Lam Yung Hei.

Mr YEUNG Kwok Kwong, aged 62, has been a *Non-executive Director* of the Company since January 2002. He is also the managing director of Polytec Asset Holdings Limited (listed on the Stock Exchange of Hong Kong) and a director of certain subsidiaries of the Group. Mr Yeung has over 35 years of experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Board of Directors (Continued)

Independent Non-executive Directors

Mr LI Kwok Sing, Aubrey, aged 71, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is a director of IAM Family Office Limited, a Hong Kong based investment firm, and has over 45 years of experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Café de Coral Holdings Limited and Pokfulam Development Company Limited (both listed on the Stock Exchange of Hong Kong). Mr Li was an independent non-executive director of Kunlun Energy Company Limited and Tai Ping Carpets International Limited (both listed on the Stock Exchange of Hong Kong) from August 1998 to May 2020 and October 2010 to May 2020 respectively as well. Mr Li holds a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

Mr LOK Kung Chin, Hardy, aged 71, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Lok is the chairman of The Sun Company, Limited and has over 50 years of experience in building and engineering construction work. He is also an independent non-executive director of Tsit Wing International Holdings Limited (listed on the Stock Exchange of Hong Kong). Mr Lok graduated in Civil Engineering from the University of Manchester Institute of Science & Technology. He is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

Mr SETO Gin Chung, John, aged 72, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Seto is the chairman of the board of Hop Hing Group Holdings Limited ("Hop Hing Group") as well as an independent non-executive director of Hop Hing Group, MS Group Holdings Limited and Pokfulam Development Company Limited (all listed on the Stock Exchange of Hong Kong). He was an independent non-executive director of China Everbright Limited (listed on the Stock Exchange of Hong Kong) from April 2003 to May 2018 and was a director of Pacific Eagle Asset Management Limited from January 2006 to December 2019. Mr Seto was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 45 years of experience in the securities and futures industry.

Mr David John SHAW, aged 74, has been an *Independent Non-executive Director* of the Company since June 2007. Mr Shaw acted as adviser to the board of HSBC Holdings plc from June 1998 until September 2013; he retired from the HSBC Group in September 2015. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

Senior management of the Group is the Executive Directors of the Company.

Corporate Governance Report

Corporate Governance Practices

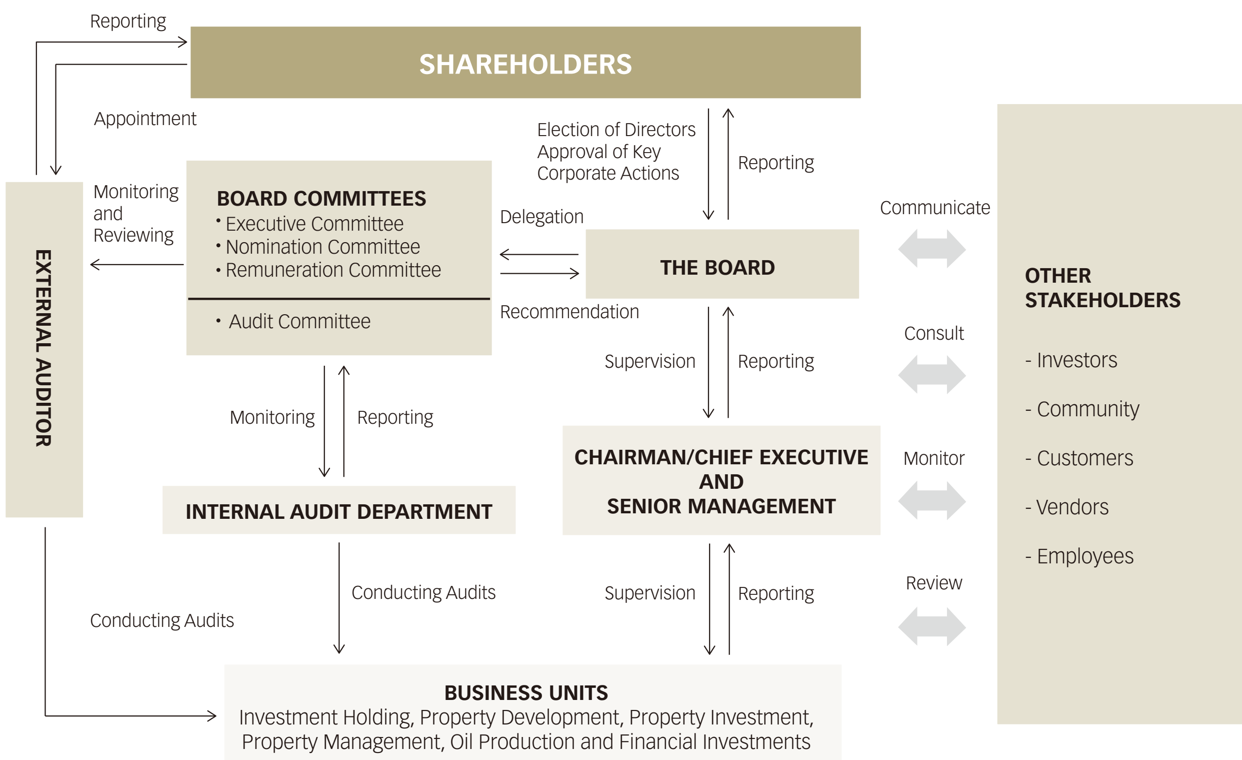
The Board of Directors of the Company (the "Board") is accountable to the shareholders of the Company (the "Shareholder(s)") for good corporate governance. Accordingly, the Board has considered carefully the requirements of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as described below, has taken actions to further enhance corporate transparency and accountability.

We believe good corporate governance is one of the critical factors for achieving sustainable long-term success. The corporate governance principles of the Company emphasise the importance of a quality Board and accountability to Shareholders. We will regularly review our corporate governance practices to ensure and maintain the long-term health of the Company.

Compliance with the CG Code

Throughout the year ended 31 December 2020, the Company has complied with all code provisions as set out in the CG Code ("Code Provision"), with the exception of Code Provision A.2.1 (which recommends the roles of the chairman and chief executive should be separate) as disclosed hereinafter under the section headed "Chairman of the Board and Chief Executive".

Corporate Governance Structure



Board of Directors

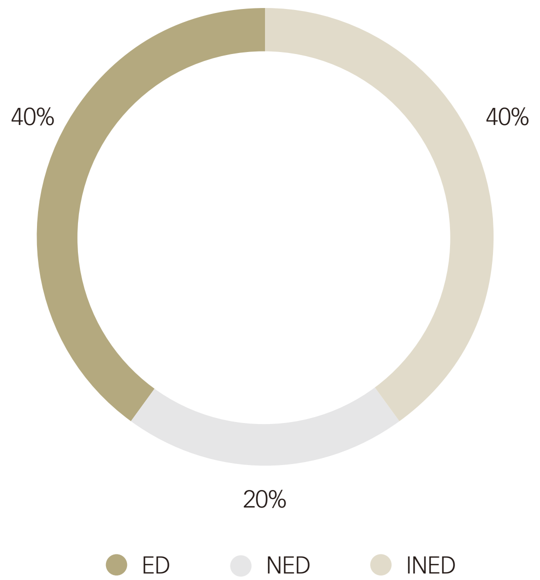
As at 31 December 2020, the Board comprises ten members:

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

Non-executive Directors (NED)
Ms Ng Chi Man*
Mr Yeung Kwok Kwong

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

* Family members of Mr Or Wai Sheun



More than one-third of the Board comprises Independent Non-executive Directors. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

Biographical details of the Board members which include relationships among members of the Board are set out on pages 27 and 28 of the Annual Report.

The Board is governed by the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong), the Listing Rules and the Articles of Association of the Company. The role of the Board is to provide strong guidance and oversight to management in formulation of the overall strategic direction, monitor the performance of management, and assure the best interests of the Company are being served. The day-to-day operational duties of the Board are delegated to management to carry out but the Board takes ultimate responsibility.

Chairman of the Board and Chief Executive

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 Company and its subsidiaries (collectively, the "Group"). He is also responsible for leading the Board. Directors with different views are encouraged to voice their concerns. This combining of the roles enables the Company to make prompt and effective decisions. The Board will reassess the applicability of Code Provision A.2.1 if the existing approach cannot provide an optimal result given the particular structure of the Company.

Apart from the regular Board meetings, the Chairman held two meetings with the Independent Non-executive Directors without the presence of other Directors to discuss general matters of the Group during the year.

Selection, Appointment and Re-Election of Directors

The Board shall have power to appoint any person as a Director either to fill a vacancy or for expansion of the Board. The Company has a Nomination Committee for formulating Director Nomination Policy for consideration of the Board and making recommendations to the Board on the selection, appointment and re-appointment of Directors.

All Directors were provided with a letter of appointment setting out the key terms and conditions of their appointment.

In accordance with the Articles of Association of the Company, any Director newly appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors, including Non-executive Directors, shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

The Company has also complied with the requirement of the CG Code on considering the independence of an Independent Non-executive Director who has served more than nine years for his further appointment. Mr Li Kwok Sing, Aubrey, who has served on the Board for more than nine years, was re-elected as Independent Non-executive Director at the 2020 Annual General Meeting (the "2020 AGM") by passing a separate resolution at the 2020 AGM. The Board's view on Mr Li's independent status was set out in the 2020 AGM circular. The re-election of Mr Lok Kung Chin, Hardy, Independent Non-executive Director, who has served on the Board for more than nine years will be considered by vote on a separate resolution in the forthcoming 2021 Annual General Meeting (the "2021 AGM"). Further information to be set out in the circular to the Shareholders on the reasons why the Board believes he is still independent and should be re-election.

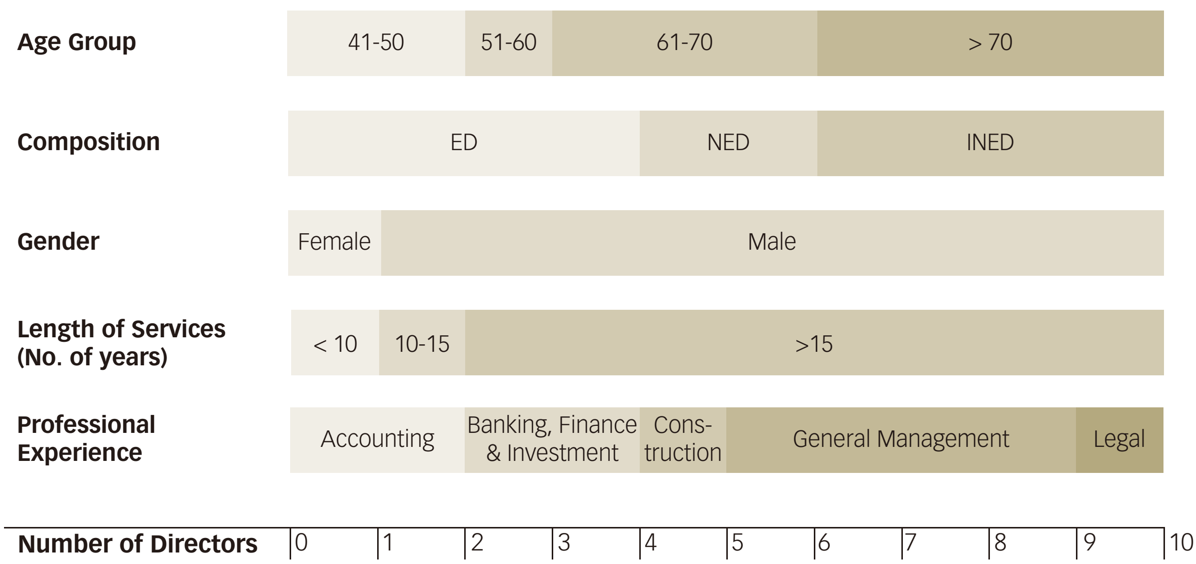
Board Diversity Policy

With a view to enhance the capability of decision making and effectiveness in dealing with organisational changes, the Company adopted a Board Diversity Policy which sets out the approach to achieve diversity.

The Company has considered the diversity of the Board members from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Directors and will consider these factors as measurable objectives when deciding on new appointments to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the development of the Company.

The Nomination Committee monitors the implementation of the Board Diversity Policy and the progress on achieving those measurable objectives and will review the Board Diversity Policy on a regular basis to ensure its continuing effectiveness.

The Board composition and diversity as at 31 December 2020 are as follows:



ED – Executive Directors
NED – Non-executive Directors
INED – Independent Non-executive Directors

Director Nomination Policy

The Board has adopted the Director Nomination Policy implemented by the Company's Nomination Committee. The Nomination Committee is responsible for selecting candidates for the Board and the Director Nomination Policy is to describe the process by which the Nomination Committee will select candidates for possible inclusion in the Company's recommended slate of director nominees. The Director Nomination Policy is applicable for all Directors of the Company.

When evaluating a person for nomination for election to the Board, the assessment parameters considered by the Nomination Committee, may include, but are not limited to:

(a) the composition of the Board and its committees with due regard to the factors set out in the Board Diversity Policy;

(b) the commitment of devoting sufficient time and attention to the Company's affairs;

(c) the perceived needs and the extent to which the interplay within the Board for particular skill, background and business experience;

(d) the reputation, character and integrity of the nominee;

(e) nominees' background with regard to executive compensation; and

(f) applicable regulatory and listing requirements, including independence requirements for Independent Non-executive Directors and legal considerations.

The Nomination Committee may use multiple sources for identifying director candidates, including its own contacts and referrals from other Directors, members of management, the Company's advisors, and executive search firms. The Nomination Committee will also consider director candidates recommended by Shareholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources.

The nomination procedures for selecting suitable candidate by the Nomination Committee are set out as follows:

Nomination of New and Replacement Directors by the Nomination Committee

(i) If the Nomination Committee determines that an additional or a replacement Director is required, the committee may take measures that it considers appropriate in connection with its identification and evaluation of a candidate.

(ii) The Nomination Committee may propose such candidate to the Board for consideration based on the assessment parameters set out in the Director Nomination Policy and such other factors it considers appropriate. The Board has the final authority to determine if the candidate is suitable for appointment.

Nomination of Re-elected Directors by the Nomination Committee

Where a retiring Director, being eligible, offer himself/herself for re-election and nominated by the Nomination Committee, the Board shall consider, if appropriate, recommend such retiring Director for re-election at a general meeting. A circular containing the requisite information of such retiring Director will be sent to Shareholders prior to a general meeting in accordance with the Listing Rules.

Director Nomination Policy (Continued)

Nomination of New Directors by Shareholders

The Company's website set out the procedures for Shareholders to propose a person for election as a Director. For any person that is nominated by a Shareholder, the Nomination Committee shall evaluate such candidate based on the assessment parameters set out in the Director Nomination Policy and make recommendation to the Board if appropriate. Recommendation shall then be made to Shareholders in a supplementary circular for the proposed election of such candidate at a general meeting.

The Director Nomination Policy is in place and has been updated to take into consideration the revised Listing Rules effective from 1 January 2019. No candidate was nominated for directorship in 2020.

Remuneration of Directors and Senior Management

The Board is ultimately responsible for the Company's Remuneration Policy. The Remuneration Committee has been delegated powers to recommend the remuneration policy and structure of all Directors and senior management whilst ensuring no Director is involved deciding his/her own remuneration.

In determining remuneration packages of Executive Directors and senior management, the Remuneration Committee is required to follow the Remuneration Policy of the Company that, among others, the remuneration should reflect performance and achievements with a view to attracting, motivating and retaining high performing individuals. The Non-executive Directors shall be entitled to receive directors' fees as shall from time to time be determined by the Company in general meeting or, if authorised by Shareholders, by the Board. The directors' fees for the year were determined after reviewing the pay levels of their peers in corporations of similar size and industry and having taken into account the prevailing market practice, workload, scale and complexity of the Company's business and the responsibility involved.

The emoluments of Directors and management for the year are set out in note 6 to the financial statements.

Operation of the Board

The Board is committed to ensuring appropriate corporate governance practices are in place. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanisms for formal review of particular aspects of the Company's affairs. Important decisions, including those which may be expected to affect the long-term Shareholder interests, are made by the Board and applicable Board committees. Matters relating to remuneration of Directors and senior management, financial reporting, risk management and internal control are regularly reviewed by applicable Board committees (comprised of a substantial majority of independent Directors) which make recommendations to the Board.

The Board has formalised the matters reserved to the Board and has reviewed those arrangements periodically to ensure that they remain appropriate to the Company's needs.

The Board meets regularly. Four physical meetings were held during the year. Each Director was provided with the notice of meeting of not less than fourteen days and related Board papers and explanatory material for preview at least three days before the meeting. Draft minutes were sent out to Directors who were eligible to be counted in the quorum of a meeting for review prior to signing off by the Chairman. Copies of the signed minutes had been sent to all Directors for their records.

Directors have access to the Company Secretary and through him to such legal advice they may require. The Company Secretary keeps all the minutes of the Board and its committees meetings.

Board Committees

There are four Board committees. Each of them adopts formal terms of reference, which has included those specific duties in line with Code Provision D.3.1 (Executive Committee), Code Provision C.3.3 (Audit Committee), Code Provision A.5.2 (Nomination Committee) and Code Provision B.1.2 (Remuneration Committee) under the CG Code. The terms of reference of each Board committee is available from the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited (except the one for the Executive Committee) or the Company Secretary upon request.

Executive Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai, Mr Or Pui Kwan, Mr Lam Yung Hei and Mr Yeung Kwok Kwong
Meeting Schedule:	Meetings were held frequently during 2020.
Major Responsibilities:	– exercise all the general powers of the Board, save and except for the matters reserved to the Board; and – manage the Company's business and review corporate policies and strategies.
Works performed during the year:	– performed reviews of the Inside Information Policy and procedures; – performed reviews of the risk management and internal control systems; – reviewed and monitored the Company's policies on compliance with legal and regulatory requirements; – reviewed the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report; and – performed reviews of the Environmental, Social and Governance Report.

Board Committees (Continued)

Audit Committee	
Members:	Mr Li Kwok Sing, Aubrey# (Chairman), Mr Lok Kung Chin, Hardy#, Mr Seto Gin Chung, John# and Mr Yeung Kwok Kwong Three out of four Audit Committee members are Independent Non-executive Directors. The chairman of the committee possesses the relevant financial management expertise or experience.
Meeting Schedule:	Three meetings were held and the committee members met the external auditor two times during 2020 in the absence of management.
Major Responsibilities:	– review, assess and make recommendations to the Board on financial reporting, auditing, risk management and internal control matters and discuss with the external auditor and management on issues arising from the annual audit and/or interim review of financial statements; and – assist the Board in considering how it will apply the financial reporting, risk management and internal control principles and maintaining an appropriate relationship with the Company's external auditor.
Works performed during the year:	– performed reviews of the half yearly and annual results; – performed reviews of financial and accounting policies and practices of the Group; – performed reviews of the relationships with the external auditor, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services; – performed reviews of the effectiveness of the risk management and internal control systems including risk management of investment activities, the internal audit plan and the adequacy of resources of the Internal Audit Department ("IAD"); and – monitored the Whistleblowing Policy and system for employees and independent third parties who deal with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

Nomination Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lok Kung Chin, Hardy# and Mr David John Shaw# Two out of three Nomination Committee members are Independent Non-executive Directors and the chairman of the committee is the Chairman of the Board.
Meeting Schedule:	One meeting was held during 2020.
Major Responsibilities:	– review the composition of the Board, identify suitable Board members, assess the independence of Independent Non-executive Directors and make recommendations to the Board on appointments and re-appointments of Directors; and – develop selection procedures for candidates and consider the suitability of a candidate by using various criteria including the perceived needs and the extent of interplay within the Board for particular skills, backgrounds and business experience; the nominee's reputation, character and integrity; the nominee's background with regard to executive compensation; and independence requirements and legal considerations.
Works performed during the year:	– performed reviews of the structure, size and composition of the Board; – performed an assessment of the independence of Independent Non-executive Directors; – performed review of the implementation of the Director Nomination Policy; – performed review of the implementation of the Board Diversity Policy including the measureable objectives that has set for implementing the policy, and progress on achieving those objectives; and – made recommendations to the Board on the re-appointment of Directors and succession planning for Directors.

Board Committees (Continued)

Remuneration Committee		
Members:	Mr Seto Gin Chung, John# (Chairman), Mr Lai Ka Fai, Mr Li Kwok Sing, Aubrey# and Mr Lok Kung Chin, Hardy# Three out of four Remuneration Committee members are Independent Non-executive Directors.	
Meeting Schedule:	Three meetings were held during 2020.	
Major Responsibilities:	–	review, assess and make recommendations to the Board on the Remuneration Policy and structure for all Directors and senior management and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management.
Works performed during the year:	–	performed reviews of the Remuneration Policy, organisational structure and human resources deployment;
	–	performed an annual review of the remuneration of Executive Directors and senior management; and
	–	performed a review of the directors' fees proposal submitted by management.

Independent Non-executive Director

Corporate Governance Functions

With the requirement on the CG Code in respect of the responsibilities for performing the corporate governance duties, the Board has delegated its following responsibilities to the Executive Committee:

(i) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) review and monitor the training and continuous professional development of Directors and senior management;

(iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

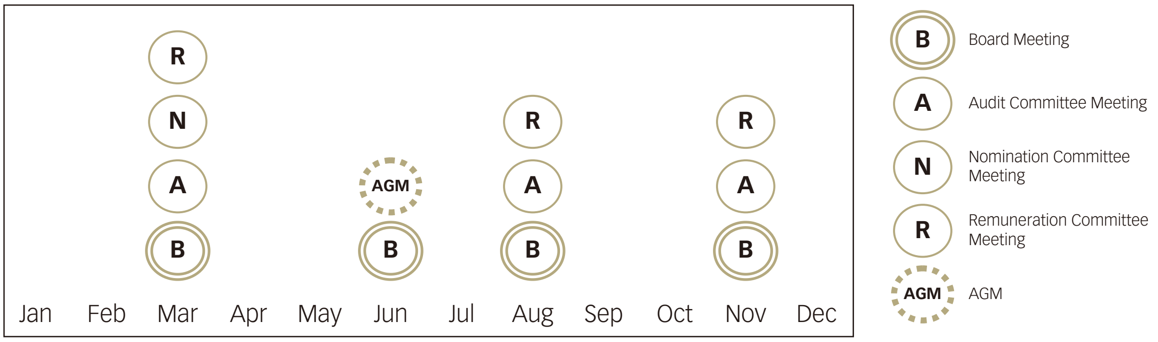
(iv) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) review the Company's compliance with the CG Code contained in Appendix 14 to the Listing Rules and disclosure in the Corporate Governance Report of the Company.

The corporate governance matters which were considered by the Executive Committee are set out in "Works performed during the year" on page 35 of this Corporate Governance Report.

Time Commitment

Timeline for the Board meetings, Board committees meetings and Annual General Meeting ("AGM") held in 2020 is set out below:



The Board has regularly reviewed the contribution required from the Directors and is satisfied that all of them have committed sufficient time during 2020 for the fulfilment of their duties as Directors of the Company. The number of Board, Board committees and general meeting(s) eligible for attendance and attended by each of the Directors during the year is set out below:

	Number of meetings attended/held in 2020				
Board Members	**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meeting**	**Remuneration Committee Meetings**	**2020 AGM[##]**
Executive Directors					
Mr Or Wai Sheun *(Chairman)*	4/4	–	1/1	–	1/1
Mr Lai Ka Fai	4/4	–	–	3/3	1/1
Mr Or Pui Kwan	4/4	–	–	–	1/1
Mr Lam Yung Hei	4/4	–	–	–	1/1
Non-executive Directors					
Ms Ng Chi Man	4/4	–	–	–	1/1
Mr Yeung Kwok Kwong	4/4	3/3	–	–	1/1
Independent Non-executive Directors					
Mr Li Kwok Sing, Aubrey	4/4	3/3	–	3/3	1/1
Mr Lok Kung Chin, Hardy	4/4	3/3	1/1	3/3	1/1
Mr Seto Gin Chung, John	4/4	3/3	–	3/3	1/1
Mr David John Shaw	4/4	–	1/1	–	0/1[#]
Total Meetings Held	4	3	1	3	1
Average Attendance Rate	100%	100%	100%	100%	90%

Mr David John Shaw was unable to attend the 2020 AGM as he was overseas at that time.
Representatives of the external auditor had attended the 2020 AGM.

Board Committees (Continued)

Time Commitment (Continued)

During 2020, Independent Non-executive Directors had also played vital monitoring roles in corporate transactions for the cooperation with Mr Or Pui Kwan in redeveloping 2B, 2C, 4, 4B, 6 and 6A High Street, Hong Kong (the "Properties") and the costs and expenses incurred, and the profits generated will be shared by Excel Billion Holdings Limited ("Excel Billion"), an indirect wholly-owned subsidiary of the Company, and Mr Or Pui Kwan. Excel Billion will be appointed as the project manager to provide project management and sales and marketing services and the shop located on the Properties at Ground Floor, No. 2C High Street, Hong Kong which is beneficially owned by a direct wholly-owned subsidiary of the Company will be acquired by Mr Or Pui Kwan.

Further details of the above transactions are set out in the section headed "Directors' Interests in Transactions, Arrangements or Contracts and Connected Transactions" of the Report of the Directors.

The Board considers that Independent Non-executive Directors contributed significantly to the deliberations of the Board by virtue of independent judgement, expertise and experience.

Training and Support for Directors

The Company provides briefings and organises in-house training to develop and refresh the Directors' knowledge and skills on a regular basis. To ensure Directors' compliance with the Listing Rules and strengthen the Directors' awareness of good corporate governance, the Company continuously updates Directors on the latest developments of the Listing Rules and other applicable regulatory requirements by issuing circulars, guidance notes and reading materials to them. During the year, the Company had organised an in-house training programme for the Directors.

In addition, each newly appointed Director is provided with a necessary induction and information to ensure that he/she has a proper understanding of the Company's businesses and operations as well as his/her responsibilities under relevant laws, rules and regulations.

During the year 2020, the Directors participated in the following training as per their records provided to the Company:

Board Members	**Attending in-house training and/or seminars and/or conferences and/or forums**	**Reading newspapers, journals, newsletters and updates relating to the economy, general business, real estate, corporate governance or director duties and responsibilities, etc.**
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	✓	✓

Company Secretary's Training

For the year under review, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than fifteen hours of relevant professional training to update his skills and knowledge.

Permitted Indemnity Provision

A permitted indemnity provision for the benefit of the Directors of the Company is provided by the Articles of Association of the Company and is currently in force and was in force throughout the year. The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Promote Ethical Decision Making

Each Director and employee is expected to adhere to high standard of ethical conduct and to be guided by two main principles: no insider dealing and avoid conflict of interests.

Securities Transactions of Directors and Relevant Employees

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. All Directors confirmed in writing that they have complied with the Model Code throughout the year. 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.

Act in the Best Interests of the Company

In connection with the actual or potential conflict of interests, each Director is required to disclose to the Board the existence of his/her financial interest and all material facts before a vote on the transaction. A Director having a material interest in the transaction shall not vote on that matter (or be counted in the quorum of that meeting) in accordance with the Company's Articles of Association. Each Director is also required to disclose to the Board if he/she has any business or interest in a business which competes with the business of the Company.

Accountability and Audit

The Board leads and maintains effective controls over the Group's activities, with executive responsibility for the running of the Group's business being delegated to management. Management provides all members of the Board with monthly updates in order to give a balanced and understandable assessment of the Group's performance, position and prospects to enable them to discharge their duties.

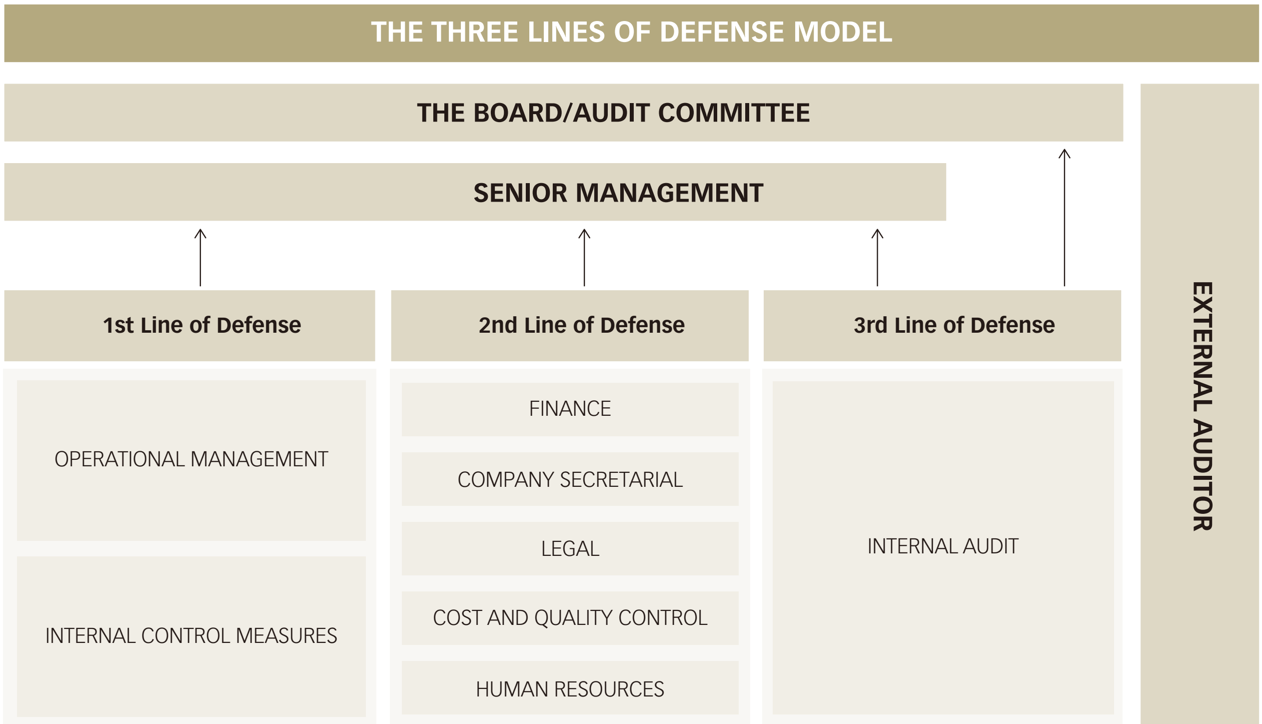
Risk Management and Internal Control

The Board acknowledges its responsibility to maintain the Group's risk management and internal control systems and review their effectiveness on an ongoing basis. The Board has delegated part of this responsibility to the Audit Committee.

The Group's risk management structure meets the best practice model known as "Three Lines of Defense Model" with the first line of defense being operational management and internal control measures, the second line of defense being finance, company secretarial, legal, cost and quality control and human resources functions, and the third line of defense being internal audit.

Accountability and Audit (Continued)

Risk Management and Internal Control (Continued)



The Group's risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage rather than completely eliminate the risks of failure in operational systems. The systems play a key role in the management of risks that are significant to the achievement of corporate objectives, ensuring good corporate practice, safeguarding the Shareholders' investments and the Group's assets. Emerging risks that may lead to significant negative impacts are identified and monitored on an ongoing basis. The systems comprise the Group's policies and procedures, and standards to ensure effective management, including well-defined organisational structure with specified authority limits and areas of responsibility, basis for review of financial performance, application of financial reporting standards, maintenance of proper accounting records, assurance of reliable financial information, and compliance with relevant laws and regulations.

Each of the Board and management has a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated. Supported by the Audit Committee, review of the effectiveness of the risk management and internal control systems is conducted annually. The review assesses all material controls, including financial, operational and compliance controls. The assessment considers the changes in nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment. It covers the regular reports provided by management on significant issues identified during their daily operation, together with the action plans to resolve material internal control defects, if any. Internal and external auditors also report directly to the Audit Committee regularly on any risks and control issues identified in the course of their audits.

The Board believes that the quality of corporate governance is influenced by the corporate culture. Therefore, the Group is determined to foster and maintain high standards of professional conduct and business ethics. The code of conduct, which is posted on the Group's intranet, had been provided to all employees to inform them of the Group's expectations and put them under special obligations in maintaining the highest standard of honesty and trustworthiness in their jobs. The Whistleblowing Policy, which is posted on the Company's website and the Group's intranet, has established an effective channel allowing employees and other stakeholders to communicate their concerns and findings to management. The Group aims to build risk awareness and control responsibility into the corporate culture and regards them as part of the risk management and internal control systems. In addition, the Group has applied relevant controls on handling of inside information by relevant employees, including controls over the dissemination of such information and their dealings in the Group's shares.

Internal Audit

The IAD reports to the Chairman and the Audit Committee and the IAD is responsible for assessing the effectiveness of the systems of risk management and internal controls of all major projects and activities of the Group with the aim to control and mitigate risks, and ensure operational effectiveness and efficiency.

The IAD adopts a risk-based approach in conducting internal reviews, including financial, operational, compliance and risk management control functions, and monitors the operational compliance with the Group's policies and procedures. The internal audit plan and reporting documents of the Group for the year ended 31 December 2020 were prepared by the IAD, and issued to the Audit Committee for review. The IAD monitors the issues raised to ensure they are addressed and managed properly by management.

During the year, the Audit Committee had three meetings with the senior members of the IAD to discuss the role, objectives, scope and job progress of internal audit functions as well as risk management and internal control issues.

The Board, through the Audit Committee and the IAD, reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget at the Board meeting held in March 2021. Based on the results of the review for the year ended 31 December 2020, the Board considered that the risk management and internal control systems were effective and adequate.

Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing financial statements for each financial year/period which give a true and fair view of the state of affairs of the Group as at the end of the financial year/period and of the profit and loss for the year/period. In preparing the financial statements, the Directors have adopted all applicable Hong Kong Financial Reporting Standards in all material respects, selected appropriate accounting policies and then applied them consistently, made judgements and estimates that are fair and reasonable. The Directors use the going concern basis in preparing the financial statements unless this is inappropriate.

The Company recognises that a clear, balanced and timely presentation of financial report is crucial in maintaining the confidence of stakeholders. Reasonable disclosure of the Company's financial position and prospects are provided in the report. Annual and interim results are published within three and two months after the end of the relevant financial year/period respectively.

A statement of the Company's external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 58 to 64 of the Annual Report.

Accountability and Audit (Continued)

Inside Information

In view of the requirements under Part XIVA of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong) and the Listing Rules, the Company developed the Inside Information Policy and guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing instruction are in place for employees to follow. The Inside Information Policy (for all staff) has been communicated to the staff through the Group's intranet. Senior officers of the Group have been identified and authorised to handle and respond the external enquiries in relation to the published announcement(s). The systems and procedures on publication and handling of inside information are monitored and reviewed on a regular basis.

External Auditor

External auditor performed some non-audit services during the year. A breakdown of their remuneration is set out below:

	2020 HK$'000
Audit services	**5,299**
Non-audit services	
Tax and business advisory services	**218**
Others	**1,053**

During the year, the Audit Committee met the external auditor two times, in the absence of management, to discuss matters about their independence to ensure they performed their work objectively, and any issues arising from the audit. The external auditor have confirmed in writing their independence.

Shareholder Relations

Communication with Shareholders

The Board has established a Shareholders Communication Policy and is dedicated to maintaining an on-going dialogue with Shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the Shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meeting and other general meeting(s) (if any), as well as disclosure on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The Company has also taken its own initiative to disclose the inside information to comply with the latest statutory requirements under Part XIVA of the SFO and the voluntary information/business update in a timely manner.

The Company's website (www.kdc.com.hk) serves as a communication tool, in which the Company's announcements, circulars to Shareholders, notices of general meetings and financial reports are posted on the "Investor Relations" section. Corporate profile and development of corporate governance of the Company are also provided on the Company's website. Information on the website of the Company is updated on a regular basis.

Shareholders can direct their questions about their shareholdings to the Company's share registrar. They can request for publicly available information of the Company from the Company Secretary.

The Company recognises the importance of Shareholders' privacy and will not disclose the Shareholders' information without their consent unless required by law to do so.

AGM

The general meeting of the Company provides a forum for effective communication with Shareholders. Total voting rights of Shareholders present at the AGM personally or by proxy in the last five years are as follows:

	Year of the AGM				
	2016	2017	2018	2019	2020
Total voting rights present at the AGM					
No. of shares represented	879,159,119	863,857,965	867,040,285	859,679,150	856,727,201
Percentage of shares represented	76.40%	75.07%	73.69%	73.06%	72.81%
No. of issued shares as at the date of the AGM	1,150,681,275	1,150,681,275	1,176,631,296	1,176,631,296	1,176,631,296

The Chairman takes the general meeting as an opportunity to open a dialogue with Shareholders and to elaborate on the outlook of the Group and its business strategies. The chairmen of the Board and its committees or, if he/they cannot present, fellow Directors are available to answer questions at the general meetings.

During the year, the Board met and communicated with Shareholders at the 2020 AGM and the notice of which was distributed to all Shareholders not less than twenty clear business days before the meeting. At the meeting, the Chairman demanded for a poll and the Company's share registrar was appointed as scrutineer for the vote taking. The external auditor had also attended the 2020 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report and auditor independence.

The 2020 AGM was held at Chiu Garden, 4th Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong on 10 June 2020. Resolutions proposed at the meeting and the percentage of votes cast in favour of the resolutions are set out below:

- to receive and consider the audited financial statements together with the reports of the Directors and the auditor thereon for the year ended 31 December 2019 (100.00%);
- to declare a final dividend for the year ended 31 December 2019 (100.00%);
- to re-elect Mr Lai Ka Fai, Mr Lam Yung Hei, Ms Ng Chi Man and Mr Li Kwok Sing, Aubrey as Directors and to authorise the Board to fix the directors' remuneration (99.56%, 99.99%, 99.98%, 99.69% and 99.98% respectively);
- to re-appoint KPMG as auditor and authorise the Board to fix the auditor's remuneration (99.96%);
- to grant a general mandate to the Directors to allot, issue and deal with additional shares not exceeding 20% of the total number of the issued shares of the Company (97.32%);
- to grant a general mandate to the Directors to repurchase shares not exceeding 10% of the total number of the issued shares of the Company (99.98%); and
- to extend the general mandate to the Directors to issue new shares by adding the number of the shares repurchased (97.42%).

Remark: All percentages in the above are approximations due to rounding.

Shareholder Relations (Continued)

Dividend Policy

The Company is committed to striving for balance between increasing the value of dividends per share and retaining the competitiveness for its future business expansion. The Company's Dividend Policy aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its profits as dividends to the Shareholders provided that there are distributable profits and the normal operations of the Group are not affected.

Principles and guidelines of the Company's Dividend Policy are set out below:

1. The Board has the discretion to declare and distribute dividends to the Shareholders by way of cash or scrip or by other means that the Board considers appropriate.

2. When considering the declaration and payment of dividends, the Board shall take into account a number of factors, including but not limited to:

   (a) actual and expected financial performance of the Group;

   (b) retained earnings and distributable reserves of the Group;

   (c) expected working capital requirements, capital expenditure requirements, liquidity position and future business strategies of the Group;

   (d) general economic conditions and other factors that may have an impact on the business or financial performance and position of the Group;

   (e) the Shareholders' interests; and

   (f) any other factors that the Board may consider relevant.

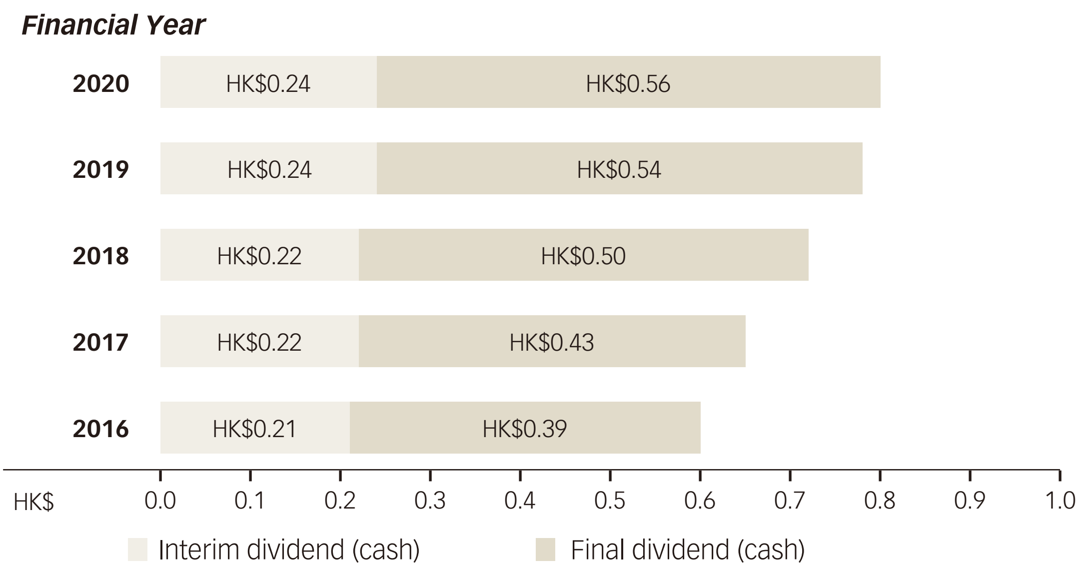
3. The Company does not have any pre-determined dividend payout ratio.

4. The declaration and payment of dividends by the Company will be subject to all applicable laws, rules and regulations and the Articles of Association of the Company.

5. Any final dividend will also be subject to the Shareholders' approval.

Subject to the financial performance of the Company, we expect to pay two dividends for each financial year.

Dividend per share



Remarks:

(1) In 2018, a special interim dividend by way of distribution in specie (the "Special Interim Dividend in Kind") was also distributed on the basis of 1 ordinary share of Polytec Asset Holdings Limited ("Polytec Asset") for every 10 ordinary shares of the Company held.

(2) In 2020, the Special Interim Dividend in Kind was also distributed on the basis of 2.67 ordinary shares of Polytec Asset for every 1 ordinary share of the Company held.

(3) The final dividend for 2020 will be subject to the approval of the Shareholders at the 2021 AGM.

Shareholders' Rights

Procedures for Shareholders to propose a person for election as a Director

If a Shareholder, who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of Director(s), intends to propose a person for election as a Director of the Company, the Shareholder concerned shall lodge a written notice at the Company's registered office for the attention of the Company Secretary stating (i) his/her intention to propose such person for election as a Director; and (ii) the biographical details of the nominated candidate. Such written notice should be signed by the Shareholder concerned and the person who has been proposed indicating his/her willingness to be elected. The period for lodgement shall commence no earlier than the day after the dispatch of the notice of general meeting appointed for such election of Director(s) and end no later than seven days prior to the date of such meeting. Detailed procedures can be found on the Company's website.

Procedures for Shareholders to convene an extraordinary general meeting ("EGM")

- Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written requisition to convene an EGM at the registered office of the Company for the attention of the Company Secretary.

- The written requisition must state the objects of the meeting, signed by the relevant Shareholders making the request and may consist of several documents in like form, each signed by one or more of the relevant Shareholders.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders.

Shareholders' Rights (Continued)

Procedures for Shareholders to convene an extraordinary general meeting ("EGM") (Continued)

- If the requisition is verified to be not in order, the relevant Shareholders will be advised of the result and accordingly, an EGM will not be convened as requested.

- If the Board does not within twenty-one days from the date of the deposit of the requisition proceed to convene an EGM for a day not more than twenty-eight days after the date on which the notice convening the EGM is given, the relevant Shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

Procedures for Shareholders to put forward proposals at general meetings

- Shareholders may propose resolution at general meetings by submitting a written requisition. The number of Shareholders shall be (i) not less than one-fortieth (1/40) of the total voting rights of all members or (ii) not less than fifty Shareholders holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK$2,000.

- The written requisition must state the proposed resolution, along with a statement of not more than one thousand words with respect to the matter referred to in the resolution or the business to be dealt with at the general meeting. It must also be signed by the relevant Shareholders and deposited at the Company's registered office for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition.

- The requisition will be verified by the Company's share registrar and upon their confirmation that the requisition is in order, the Company will give notice of the resolution or circulate the statement provided that the relevant Shareholders have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

- If the requisition is verified to be not in order or the relevant Shareholders have failed to deposit sufficient money to meet the Company's expenses for the said purpose, the relevant Shareholders will be advised of the result and accordingly, no action will be taken by the Company in that regard.

Procedures for Shareholders to send enquiries to the Board

Shareholders may make enquiries or direct concerns to the Board in writing by addressing to the Company Secretary by mail at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong or by email to enquiry@kdc.com.hk.

Constitutional Documents

There was no change to the Company's Articles of Association during the financial year.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2020.

Principal Place of Business

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

Principal Activities and Business Review

The principal activities of the Company are property investment and investment holding. Its subsidiaries are principally engaged in investment holding, property development, property investment, property management, oil production and financial investments. The principal activities and particulars of its principal subsidiaries are set out in note 29 to the financial statements.

Further discussion and analysis of the above activities as required by Schedule 5 to the Companies Ordinance (the "Companies Ordinance") (Chapter 622 of the Laws of Hong Kong), including a fair review of the Group's business, a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2020, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman's Statement", "Review of Operations", "Financial Review" and "Corporate Governance Report" sections of the Annual Report. The aforesaid sections form part of this report.

Dividends

An interim dividend in cash of HK$0.24 (2019: HK$0.24) per share and a special interim dividend by way of distribution in specie on the basis of 2.67 ordinary shares of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208) for every 1 ordinary share of the Company held (2019: Nil) were paid on 30 October 2020. The Directors now recommend that a final dividend in cash of HK$0.56 (2019: HK$0.54) per share be paid in respect of the year ended 31 December 2020.

Share Capital

Movements in share capital during the year are set out in note 24(b) to the financial statements.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2020.

Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity.

Oil Reserves

The oil production assets and exploitation assets held by Polytec Asset have been distributed by the Group through the distribution in specie of shares in Polytec Asset on 30 October 2020.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in notes 22 and 23 to the financial statements.

Finance Costs Capitalised

The amount of finance costs capitalised by the Group during the year is set out in note 5(b) to the financial statements.

Donations

Charitable donations made by the Group during the year amounted to HK$985,000 (2019: HK$1,041,000).

Properties

Particulars of major properties and property interests of the Group are shown on pages 145 to 148 of the Annual Report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of the Annual Report.

Management Contracts

Save for the directors' service contracts, no other contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or subsisted during the year.

Major Customers and Suppliers

Particulars of major customers and suppliers of the Group during the year ended 31 December 2020 are set out in note 3(d) to the financial statements.

Directors

The Directors during the year and up to the date of this report are:

Mr Or Wai Sheun, *Chairman and Executive Director*
Mr Lai Ka Fai, *Executive Director*
Mr Or Pui Kwan, *Executive Director*
Mr Lam Yung Hei, *Executive Director*
Ms Ng Chi Man, *Non-executive Director*
Mr Yeung Kwok Kwong, *Non-executive Director*
Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*
Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*
Mr Seto Gin Chung, John, *Independent Non-executive Director*
Mr David John Shaw, *Independent Non-executive Director*

In accordance with Article 105 of the Articles of Association of the Company, Mr Or Pui Kwan, Mr Yeung Kwok Kwong and Mr Lok Kung Chin, Hardy will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Particulars of the Directors' emoluments, disclosed pursuant to Section 383 of the Companies Ordinance and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in note 6(a) to the financial statements.

Brief biographical particulars of all Directors are given on pages 27 and 28 of the Annual Report.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website at www.kdc.com.hk.

Director's Service Contracts

None of the Directors seeking re-election at the forthcoming Annual General Meeting has a service contract with any member of the Group which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests and Short Positions

As at 31 December 2020, the interests of the Directors in the shares of the Company and 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 for Securities Transactions by Directors of Listed Issuers (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		
	Personal	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%	

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	2,389,916,918	53.84%	2
Mr Or Pui Kwan	Personal	7,120,495	0.16%	
Mr Lam Yung Hei	Family	7,000,000	0.16%	6
Mr Lok Kung Chin, Hardy	Founder and beneficiary of trusts	3,947,250	0.09%	3
Mr Lai Ka Fai	Personal	2,510,270	0.06%	
Mr Yeung Kwok Kwong	Personal	2,498,600	0.06%	
Mr David John Shaw	Personal	548,685		
	Personal	6,700		4
		555,385	0.01%	

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 31 December 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 was held by the deceased spouse of Mr David John Shaw and the shares formed part of her estate. Following the Grant of Letters of Administration, sealed by the High Court of Hong Kong and a direction by the administrator of the estate, the shares were transferred to the beneficial ownership of Mr David John Shaw on 25 September 2020.

(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 31 December 2020. Polytec Asset is an associated corporation of the Company.

(6) 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 31 December 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 31 December 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 31 December 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 31 December 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.

Directors' Interests in Transactions, Arrangements or Contracts and Connected Transactions

On 23 October 2020, Excel Billion Holdings Limited ("Excel Billion"), an indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement with Mr Or Pui Kwan pursuant to which Excel Billion and Mr Or Pui Kwan will cooperate in connection with the redevelopment of 2B, 2C, 4, 4B, 6 and 6A High Street, Hong Kong (the "Properties") into residential units including one to two storey shops located on the ground floor (the "Redevelopment") at an initial acquisition cost of HK$249,514,000. Excel Billion and Mr Or Pui Kwan will share the costs and expenses incurred, and the profits generated, in connection with the Redevelopment in the ratio of 60% to 40%. Excel Billion will be appointed as the project manager to provide project management and sales and marketing services in connection with the Redevelopment. As part of the Redevelopment, Mr Or Pui Kwan will acquire the shop located on the Properties at Ground Floor, No. 2C High Street, Hong Kong which is beneficially owned by a direct wholly-owned subsidiary of the Company at a consideration of HK$29,380,000. The total cash flow commitment of Excel Billion (including the sharing of the initial acquisition cost) is capped at HK$400,000,000.

Given that Mr Or Pui Kwan was an Executive Director of the Company as at 23 October 2020, he was a connected person of the Company. Accordingly, the transactions between Excel Billion and Mr Or Pui Kwan constituted connected transactions of the Company under the Listing Rules. Details of the transactions were disclosed in the announcement of the Company dated 23 October 2020.

The Company has complied with the disclosure requirements for the above connected transactions in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and the sections headed "Interests in property development" and "Material related party transactions" as set out in notes 14 and 31 to the financial statements, none of the Directors of the Company was materially interested in any transaction, arrangement or contract entered into by the Company, its subsidiaries or holding companies or its fellow subsidiaries which transaction, arrangement or contract subsisted at the end of the year or at any time during the year and which was significant in relation to the business of the Company and its subsidiaries.

Permitted Indemnity Provision

A permitted indemnity provision (as defined in Section 469 of the Companies Ordinance) for the benefit of the Directors of the Company is currently in force and was in force throughout the year. Details of the Company's permitted indemnity provision are set out in the Corporate Governance Report of the Annual Report.

Changes in Information of Directors

Save for the Directors' emoluments which set out in note 6(a) to the financial statements and the Profile of Directors which set out on pages 27 and 28, 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 year ended 31 December 2020, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 30 to the financial statements.

Arrangement to Purchase Shares and Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements which enabled any Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

Corporate Governance

Principal corporate governance practices of the Company are set out in the Corporate Governance Report on pages 29 to 48 of the Annual Report.

Review of Financial Statements

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group, in conjunction with the Company's independent auditor.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

Closure of Register of Members

For the purpose of determining shareholders' eligibility to attend and vote at the 2021 Annual General Meeting, the Register of Members of the Company will be closed from Friday, 28 May 2021 to Wednesday, 2 June 2021, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to be eligible to attend and vote at the 2021 Annual General Meeting, 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 Thursday, 27 May 2021.

For the purpose of determining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from Wednesday, 9 June 2021 to Thursday, 10 June 2021, both dates inclusive. During the aforementioned period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm (Hong Kong time) on Tuesday, 8 June 2021.

Auditor

The Group's consolidated financial statements for the year ended 31 December 2020 have been audited by KPMG, Certified Public Accountants, who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Or Wai Sheun
Chairman

Hong Kong, 31 March 2021

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of
Kowloon Development Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Kowloon Development Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 65 to 144, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Assessing the net realisable value of properties under development for sale and properties held for sale in Mainland China owned by the Group, a joint venture and associated companies

Refer to accounting policies 1(l)(ii) and (l)(iii) and notes 2(b), 15, 16 and 18 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, the Group held a number of residential and commercial property development projects located in cities across Mainland China. In addition, the Group has interests in residential and commercial property development projects in Mainland China through a joint venture and associated companies, which are equity accounted for in the consolidated financial statements. A significant component of the carrying values of the interests in a joint venture and associated companies is the carrying value of the underlying property development projects owned by these investees. Properties under development for sale and properties held for sale are stated at the lower of cost and net realisable value. The determination of the net realisable value of these properties requires significant management estimation and judgement, particularly in determining expected future selling prices, costs to completion and the costs necessary to complete the sale of these properties. We identified the assessment of net realisable value of properties under development for sale and properties held for sale in Mainland China held by the Group and its joint venture and associated companies as a key audit matter because of the significance of these properties to the Group's total assets and because the assessment of net realisable value is inherently subjective and requires significant management judgement and estimation in relation to estimating future construction costs and the future selling prices for each property development project, particularly in light of the current economic circumstances in Mainland China whereby local governments are imposing conditions or restrictions on the purchase of residential properties.	Our audit procedures to assess the net realisable value of properties under development for sale and properties held for sale in Mainland China included the following: • obtaining and inspecting management's valuations on which management's assessment of the net realisable value of the properties was based; • discussing with management and assessing their valuation methodology and challenging key estimates and assumptions adopted in the valuations, including expected future selling prices and costs to completion, by comparing these with, where applicable, recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of each development and publicly available construction cost information for properties of a similar nature and location; • conducting site visits to all properties under development for sale to observe the development progress and challenging management's development budgets reflected in the latest forecasts with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; • re-performing calculations made by management in arriving at the year end assessments of net realisable value on a sample basis and comparing the estimated future construction costs to complete each development to the Group's updated budgets; • performing a retrospective review for all properties under development for sale completed during the year by comparing the actual construction costs incurred during the year to those included in the prior year's forecasts in order to assess the accuracy of the Group's budgeting process and whether this is any indication of management bias; and • performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for these properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

Key audit matters (continued)

Valuation of completed investment properties and investment properties under development

Refer to accounting policy 1(h) and notes 2(a) and 11 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, the Group held a portfolio of completed investment properties and investment properties under development located in Hong Kong. The fair values of completed investment properties and investment properties under development as at 31 December 2020 were assessed by management based on independent valuations prepared by a qualified external property valuer. We identified valuation of the completed investment properties and investment properties under development as a key audit matter because the valuation of completed investment properties and investment properties under development involve significant judgement and estimation, particularly in selecting appropriate valuation methodology, and for completed investment properties, capitalisation rates and market rents while, for investment properties under development, an estimation of costs to complete property development project, which increase the risk of error or potential management bias.	Our audit procedures to address the valuation of completed investment properties and investment properties under development included the following: • obtaining and inspecting the valuation report prepared by the external property valuer; • assessing the objectivity, qualifications and expertise of the external property valuer in the properties being valued; • with the assistance of our internal valuation specialists and utilising their industry knowledge and experience, discussing with the external property valuer, without the presence of management, and assessing the external property valuer's valuation methodologies; and challenging the key estimates and assumptions adopted by comparing capitalisation rates, prevailing market rents and comparable market transactions with the available market information, on a sample basis; • for completed investment properties, comparing tenancy information, including committed rents and occupancy rates, provided by management to the external property valuer, with underlying contracts and related documentation, on a sample basis; and • for investment properties under development, conducting site visit to observe the development progress and evaluating management's latest development budgets with reference to market statistics about estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects.

Key audit matters (continued)

Valuation of interests in property development

Refer to accounting policy 1(j) and notes 2(c) and 14 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, interests in property development represented the Group's interests in the development of residential and commercial properties located in Mainland China which were classified as financial assets at fair value through profit or loss and were stated at a fair value of HK$1,811.8 million. The Group recognised a net surplus on revaluation of these assets of HK$31.7 million in the consolidated income statement for the year ended 31 December 2020. The fair value of interests in property development was measured using a discounted cash flow model prepared by management. We identified the valuation of interests in property development as a key audit matter because the valuation of interests in property development can be inherently subjective and requires the exercise of significant management judgement and estimation which increases the risk of error or management bias, particularly in light of the current economic circumstance in Mainland China whereby local government is imposing conditions or restrictions on the purchase of residential properties.	Our audit procedures to address the valuation of interests in property development included the following: • obtaining and assessing the discounted cash flow forecast prepared by management and comparing the key estimates and assumptions made in prior years with the current year and current market developments to assess the accuracy of the Group's forecasting process and whether this is any indication of management bias; • with the assistance of our internal valuation specialists and utilising their industry knowledge and experience, discussing and assessing with management their valuation methodology and challenging the key estimates and assumptions adopted, by comparing those relating to expected future selling prices, costs to completion and the discount rates applied with publicly available market information; • conducting site visit to the property development project to observe the development progress and evaluating whether development progress for the project was consistent with the development plan as reflected in the latest forecast; and • re-performing calculation of the discounted cash flow model prepared by management in arriving at the year end fair value and comparing the expected profit distribution plan with the latest sales budget plan maintained by management.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ming.

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

31 March 2021

Consolidated Income Statement

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'000	2019 $'000 (restated)
Continuing operations			
Revenue	3	**4,706,037**	10,837,484
Cost of sales		**(2,184,685)**	(6,533,907)
Other revenue		**92,913**	41,722
Other net expenses	5(a)	**(33,270)**	(348,896)
Depreciation and amortisation		**(30,862)**	(25,736)
Staff costs		**(612,472)**	(343,087)
Selling, marketing and distribution expenses		**(294,470)**	(511,337)
Other operating expenses		**(169,697)**	(74,720)
Fair value changes on investment properties	11	**(562,037)**	(299,047)
Fair value changes on interests in property development	14	**31,741**	(36,736)
Profit from operations		**943,198**	2,705,740
Finance costs	5(b)	**(135,483)**	(290,496)
Share of profits of associated companies		**8,263**	10,203
Share of profits of joint ventures		**19,619**	23,434
Profit before taxation	5	**835,597**	2,448,881
Income tax	7(a)	**(233,435)**	(481,389)
Profit for the year from continuing operations		**602,162**	1,967,492
Discontinued operations			
Profit for the year from discontinued operations	4(a)	**295,714**	694,484
Profit for the year		**897,876**	2,661,976
Attributable to:			
Shareholders of the Company		**800,868**	2,449,733
Non-controlling interests		**97,008**	212,243
Profit for the year		**897,876**	2,661,976

Consolidated Income Statement

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'000	2019 $'000 (restated)
Attributable to shareholders of the Company arising from:			
Continuing operations		**591,532**	1,958,108
Discontinued operations		**209,336**	491,625
		800,868	2,449,733
Attributable to non-controlling interests arising from:			
Continuing operations		**10,630**	9,384
Discontinued operations		**86,378**	202,859
		97,008	212,243
Earnings per share – Basic and diluted	8		
Continuing operations		**$0.50**	$1.66
Discontinued operations		**$0.18**	$0.42
		$0.68	$2.08

The notes on pages 73 to 144 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	2020 $'000	2019 $'000 (restated)
Profit for the year	**897,876**	2,661,976
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**261,416**	(93,274)
Share of other comprehensive income of joint ventures and associated companies	**248,695**	(103,546)
	510,111	(196,820)
Total comprehensive income for the year	**1,407,987**	2,465,156
Attributable to:		
Shareholders of the Company	**1,296,884**	2,262,724
Non-controlling interests	**111,103**	202,432
Total comprehensive income for the year	**1,407,987**	2,465,156
Total comprehensive income for the year attributable to shareholders of the Company arising from:		
Continuing operations	**1,087,548**	1,771,099
Discontinued operations	**209,336**	491,625
	1,296,884	2,262,724
Total comprehensive income for the year attributable to non-controlling interests arising from:		
Continuing operations	**24,725**	(427)
Discontinued operations	**86,378**	202,859
	111,103	202,432

The notes on pages 73 to 144 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Non-current assets					
Investment properties	11		9,859,630		10,424,950
Property, plant and equipment	12		291,529		564,528
Oil exploitation assets	13		–		6,001
Interests in property development	14		1,811,771		12,606,030
Interest in joint ventures	15		2,067,652		4,621,186
Interest in associated companies	16		1,527,988		1,506,604
Other financial assets	17		916,503		161,050
Trade and other receivables	19		87,340		98,280
Loans and advances	19		514,304		484,891
Deferred tax assets	10(a)		37,409		53,523
			17,114,126		30,527,043
Current assets					
Inventories	18	15,040,616		14,757,745	
Interests in property development	14	–		1,447,493	
Trade and other receivables	19	565,339		1,277,302	
Loans and advances	19	18,309		16,220	
Other financial assets	17	105,671		15,418	
Amount due from a related company	21	–		500,000	
Amounts due from joint ventures	15	112,883		316,005	
Pledged deposits	28	13,692		15,000	
Cash and bank balances		1,133,841		3,259,366	
		16,990,351		21,604,549	
Current liabilities					
Trade and other payables	20	2,403,642		4,059,060	
Amount due to a joint venture	15	477,046		470,542	
Loan from an associated company	16	47,075		44,229	
Bank loans	23	5,747,849		1,526,686	
Current taxation		488,433		683,910	
		9,164,045		6,784,427	
Net current assets			7,826,306		14,820,122
Total assets less current liabilities			24,940,432		45,347,165

Consolidated Statement of Financial Position

At 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Non-current liabilities					
Loan from a related company	22	**695,335**		3,972,379	
Bank loans	23	**6,127,401**		9,433,422	
Other payables		**–**		17,688	
Deferred tax liabilities	10(a)	**529,503**		602,328	
			7,352,239		14,025,817
NET ASSETS			**17,588,193**		31,321,348
Capital and reserves					
Share capital	24(b)		**8,636,490**		8,636,490
Reserves			**8,833,237**		18,431,717
Total equity attributable to the shareholders of the Company			**17,469,727**		27,068,207
Non-controlling interests			**118,466**		4,253,141
TOTAL EQUITY			**17,588,193**		31,321,348

Approved and authorised for issue by the board of directors on 31 March 2021.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 73 to 144 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	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 2019							
Profit for the year	–	–	–	2,449,733	2,449,733	212,243	2,661,976
Other comprehensive income	–	–	(187,009)	–	(187,009)	(9,811)	(196,820)
Total comprehensive income	–	–	(187,009)	2,449,733	2,262,724	202,432	2,465,156
Dividends approved in respect of the previous year	–	–	–	(588,316)	(588,316)	–	(588,316)
Dividends approved in respect of the current year	–	–	–	(282,392)	(282,392)	–	(282,392)
Dividends paid to non-controlling interests	–	–	–	–	–	(126,688)	(126,688)
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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	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 2020	8,636,490	(176,595)	(102,262)	18,710,574	27,068,207	4,253,141	31,321,348
Changes in equity for 2020							
Profit for the year	–	–	–	800,868	800,868	97,008	897,876
Other comprehensive income	–	–	496,016	–	496,016	14,095	510,111
Total comprehensive income	–	–	496,016	800,868	1,296,884	111,103	1,407,987
Dividends approved in respect of the previous year	–	–	–	(635,381)	(635,381)	–	(635,381)
Dividends approved in respect of the current year	–	–	–	(282,392)	(282,392)	–	(282,392)
Dividends paid to non-controlling interests	–	–	–	–	–	(100,624)	(100,624)
Special dividend by way of distribution in specie of shares in a subsidiary *(Remark)*	–	–	(8,198)	(9,969,393)	(9,977,591)	(4,145,154)	(14,122,745)
At 31 December 2020	8,636,490	(176,595)	385,556	8,624,276	17,469,727	118,466	17,588,193

Remark:

During the year ended 31 December 2020, the Group distributed its 70.79% equity interest in Polytec Asset Holdings Limited ("PAH") (Stock Code: 208) through distribution of special dividend as disclosed in note 9(a). A total of 3,142,341,682 PAH shares with an aggregate net asset value of approximately of $9,977,591,000 were recognised as distribution during the year, which represented a distribution of approximately $8.48 per share of the Company.

The notes on pages 73 to 144 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $'000	2019 $'000
Net cash (used in)/generated from operating activities	25(a)	**(125,734)**	5,415,374
Investing activities			
Purchase of equity securities and investment fund		**(116,480)**	(31,057)
Proceeds from disposal of equity securities		**–**	16,266
Purchase of debt securities		**(1,148,453)**	(155,923)
Proceeds from disposal of property, plant and equipment		**12**	690
Proceeds from disposal of investment properties		**8,997**	3,500
Additions to investment properties		**(1,722)**	(108,335)
Additions to property, plant and equipment and oil exploitation assets		**(14,909)**	(47,282)
Dividend received from a joint venture		**51,344**	70,112
Dividend received from an associated company		**–**	1,960
Decrease in pledged deposits		**1,308**	1,022,121
Cash (used in)/received from acquisition of subsidiaries	25(c)	**(43,790)**	13,030
Acquisition of additional interest in an associated company		**(37,592)**	–
Amount advanced to a joint venture		**(10,982)**	–
Net cash (used in)/generated from investing activities		**(1,312,267)**	785,082
Financing activities			
Drawdown of bank loans	25(b)	**2,808,447**	1,769,785
Repayment of bank loans	25(b)	**(160,337)**	(6,077,550)
(Decrease)/Increase in loans from related companies	25(b)	**(2,281,311)**	1,311,075
Dividends paid to shareholders of the Company		**(917,220)**	(869,729)
Dividends paid to non-controlling interests		**(100,624)**	(126,688)
Cash and cash equivalents distributed by way of distribution in specie of shares in a subsidiary	25(d)	**(97,965)**	–
Net cash used in financing activities		**(749,010)**	(3,993,107)
Net (decrease)/increase in cash and cash equivalents		**(2,187,011)**	2,207,349
Cash and cash equivalents at 1 January		**3,259,366**	1,068,348
Effect of foreign exchange rate changes		**61,486**	(16,331)
Cash and cash equivalents at 31 December		**1,133,841**	3,259,366
Analysis of balances of cash and cash equivalents at 31 December			
Cash and bank balances		**1,133,841**	3,259,366

The notes on pages 73 to 144 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Measurement basis

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties (note 1(h)), interests in property development (note 1(j)) and investments in debt and equity securities (note 1(o)), which are measured at their fair values, as explained in the accounting policies set out below.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of Kowloon Development Company Limited ("the Company") and all of its subsidiaries (together referred to as "the Group") made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies and joint ventures. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

(d) Changes in accounting policies

The HKICPA has issued certain amendments to HKFRSs that are first effective for the current accounting period of the Group. None of the development 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.

1 Significant accounting policies (Continued)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(u)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Interest in subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has the power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cashflows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

1 Significant accounting policies (Continued)

(f) Interest in subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(o)) or, when appropriate, the cost on initial recognition of an investment in an associated company or joint venture (see note 1(g)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(u)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(g) Associated companies and joint ventures

An associated company is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associated company or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associated company or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post-acquisition changes in the Group's share of the investee's net assets and any impairment losses relating to the investment. At the reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associated company or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company or the joint venture.

1 Significant accounting policies (Continued)

(g) Associated companies and joint ventures (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associated companies and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associated company becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associated company or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(o)).

In the Company's statement of financial position, investments in associated companies and joint ventures are stated at cost less impairment losses (see note 1(u)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(h) Investment properties

Investment properties are land and/or buildings held under leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. They are valued semi-annually by independent firm of professional valuers on a market value basis. Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair values cannot be reliably measured at that time in which case they are stated at cost less any impairment losses. All changes in fair value of investment properties are recognised directly in the consolidated income statement.

(i) Property, plant and equipment

(i) Leasehold land and buildings held for own use

Leasehold land and buildings held for own use are stated at cost less accumulated depreciation and impairment losses.

(ii) Other property, plant and equipment

Other property, plant and equipment (other than land and buildings held for own use) is stated at cost less accumulated depreciation and impairment losses (see note 1(u)).

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Interests in property development

Interests in property development are classified as investments measured at fair value through profit or loss ("FVPL"). Changes in fair value of the investments (including interest) are recognised in profit or loss. The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development.

1 Significant accounting policies (Continued)

(k) Oil exploitation assets

Costs incurred for the acquisition and maintenance of the exploitation rights of the Group's oil exploration and production activities are capitalised as oil exploitation assets. Oil exploitation assets are stated at cost less accumulated amortisation and impairment losses (see note 1(u)). The amortisation is calculated based on unit of production method based upon the estimated proved and probable oil reserves.

(l) Inventories

(i) Land/Properties held for future development

Land/Properties held for future development is stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(ii) Properties under development

Properties under development are stated at the lower of cost and estimated net realisable value. Cost comprises the acquisition cost of interests in leasehold land, borrowing costs capitalised, aggregate costs of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(iii) Properties held for sale

Properties held for sale are stated at the lower of cost and estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

(iv) Trading goods and consumables

Inventories other than consumables are stated at the lower of cost and net realisable value. Consumables are stated at cost less any provision for obsolescence. Cost of inventories, other than properties, is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECLs") in accordance with the policy set out in note 1(u)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(w)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(w)).

1 Significant accounting policies (Continued)

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(m)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(u)).

(o) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associated companies and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 32(f). These investments are subsequently accounted for as follows, depending on their classification:

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(w)(vii)).

– fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

1 Significant accounting policies (Continued)

(o) Other investments in debt and equity securities (Continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(w)(vi).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(y)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Borrowings

Borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development costs financed out of general working capital, to the average rate thereof.

1 Significant accounting policies (Continued)

(s) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(t) Depreciation and amortisation

(i) Leasehold land and buildings

Leasehold land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is depreciated over the remaining term of the leases. Buildings and improvements thereto are depreciated over the shorter of their useful lives and the unexpired terms of the leases.

(ii) Oil production assets

Oil production assets include all property, plant and equipment arising from oil exploration and production activities. Depreciation of certain oil production assets is calculated based on a unit of production method based upon the estimated proved and probable oil reserves to write off the cost of each asset, less any estimated residual value.

(iii) Other property, plant and equipment

Other property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Future estimated dismantling and restoration costs of other property, plant and equipment are discounted at appropriate rates and are capitalised as part of the costs of other property, plant and equipment, which are subsequently depreciated. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time, is reflected as an adjustment to the costs.

Except for certain oil production assets as set out in note 1(t)(ii) above, depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

–	Air conditioning plant, plant and machinery, lifts and escalators	5 to 10 years
–	Furniture and fixtures, motor vehicles, electronic data processing equipment and others	2 to 5 years

1 Significant accounting policies (Continued)

(u) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, loans and advances, amounts due from joint ventures, loans to associated companies and loans to joint ventures);

– contract assets as defined in HKFRS 15 (see note 1(m)); and

– debt securities measured at FVOCI (recycling).

Other financial assets measured at fair value, including equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

1 Significant accounting policies (Continued)

(u) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment,the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

1 Significant accounting policies (Continued)

(u) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(vii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

1 Significant accounting policies (Continued)

(u) Credit losses and impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

- property, plant and equipment, including right-of-use assets (other than properties carried at fair values);
- oil exploitation assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associated companies and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses
  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

1 Significant accounting policies (Continued)

(u) Credit losses and impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(u)(i) and 1(u)(ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

1 Significant accounting policies (Continued)

(v) Income tax (Continued)

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(w) Recognition of revenue

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(ii) Sale of properties

Revenue arising from the sale of properties is recognised in the income statement on the basis that control over the ownership of the property has been passed to the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all the benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

(iii) Income from interests in property development

Income from interests in property development is recognised when the Group is entitled to a distribution in respect of the investment.

(iv) Sale of crude oil

Revenue arising from the sale of crude oil is recognised at a point in time when the customer takes possession of and accepts the crude oil, which is taken to be the point in time when the customer has obtained control of the crude oil sold.

1 Significant accounting policies (Continued)

(w) Recognition of revenue (Continued)

(v) Property management service income

Revenue arising from provision of property management service is recognised when the service is rendered.

(vi) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

1 Significant accounting policies (Continued)

(y) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). The same definition of default and the same assessment of significant increase in credit risk as described in note 1(u)(i) apply.

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(u)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

1 Significant accounting policies (Continued)

(y) Financial guarantees issued, provisions and contingent liabilities (Continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(z) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associated company or joint venture of the other entity (or an associated company or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associated company of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (Continued)

(aa) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(t) and 1(u)(ii)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 1(h); and

- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 1(l).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1 Significant accounting policies (Continued)

(aa) Leased assets (Continued)

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(w)(i).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 1(aa)(i), then the Group classifies the sub-lease as an operating lease.

(ab) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

Contributions to retirement plans (defined contribution retirement plans) managed by respective local governments of the municipalities in which the Group operates in the Mainland China are charged to profit or loss as and when incurred, except to the extent that they are included in properties under development for sale not yet recognised as an expense.

(ac) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies (which are described in note 1), management has made the following judgements that have significant effect on the amounts recognised in the financial statements.

(a) Estimation of fair value of investment properties

Investment properties are stated at market value based on a valuation performed by an independent firm of professional valuers at the end of the reporting period based on certain assumptions (see note 11(b)).

The fair value of investment properties is revalued semi-annually by independent qualified valuers, 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 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 fair value of investment properties under development is revalued semi-annually by independent qualified valuers, 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.

(b) Estimation of provision for land/properties held for future development and properties under development and held for sale

Management determines the net realisable value of land/properties held for future development and properties under development and held for sale by using the prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers.

Management's assessment of net realisable value of land/properties held for future development and properties under development and held for sale requires judgement as to the anticipated sale prices with reference to the recent sale transaction in nearby locations, rate of new property sales, marketing costs and the expected costs to complete the properties and the legal and regulatory framework and general market conditions.

2 Critical accounting judgements and key sources of estimation uncertainty (Continued)

(c) Estimation of fair value of interests in property development

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.

As at 31 December 2020, interests in property development represent the Group's interests in the development of a property located at Huizhou, in Mainland China (2019: 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") (2019: under the co-investment agreements with Polytec Holdings and two of its wholly owned subsidiaries).

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 was 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.

On 29 November 2018, a civil claim against the Macau SAR Government to seek compensation for losses and damage on the development project at Lote P was filed by PCL. Nevertheless, an unfavourable judgement was issued by the Tribunal Administrative (the Administrative Court) in Macau on 30 March 2020.

2 Critical accounting judgements and key sources of estimation uncertainty (Continued)

(c) Estimation of fair value of interests in property development (Continued)

With regard to this, a petition for appeal (the "Appeal") was submitted to the Court of Second Instance in Macau by PCL on 29 May 2020. On 11 September 2020, an application to withdraw the Appeal was submitted by PCL and the acceptance of it was confirmed by the Court soon afterwards. As a result the aforesaid civil claim was terminated. Such termination will not have any adverse impact on the financial position of the Group as Polytec Holdings will indemnify the Group in respect of the loss suffered pursuant to the co-investment agreement for the development of the project. In this respect, it has been agreed by Polytec Holdings with the Group that a guarantee payment amounted to $8,409 million plus interest to be charged at a prevailing market rate per annum will be made to the Group by three yearly instalments, in which 20%, 40% and 40% of the guarantee payment plus all interest accrued up to each year end date, will be settled by the end of each of three consecutive years respectively starting from 2021.

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.

Both interests in property development of Lote P and Lotes T+T1 held by PAH have been distributed by the Group through the distribution in specie of shares in PAH on 30 October 2020.

(d) Impairment of oil production assets and oil exploitation assets

During the year ended 31 December 2020, the oil production assets (included in property, plant and equipment) and oil exploitation assets were fully depreciated and impaired (2019: net book value 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 were 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 were based on assumptions that were 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 was affected by a wide range of global and domestic factors which were all beyond the control of the Group. Any adverse changes in the key assumptions could increase the impairment provision.

2 Critical accounting judgements and key sources of estimation uncertainty (Continued)

(d) Impairment of oil production assets and oil exploitation assets (Continued)

During the year ended 31 December 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 at disposal date. 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% (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 made during the year, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by $59,463,000 (2019: $231,573,000) which was mainly due to the declining crude oil price forecast. The forecast future crude oil prices at 30 October 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 (2020: USD42.25 – USD66.83 per barrel; 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 (2019: $210,731,000) and $5,249,000 (2019: $20,842,000) respectively, are provided and recognised under profit from discontinued operations in the Group's consolidated income statement.

The oil production assets and exploitation assets held by PAH have been distributed by the Group through the distribution in specie of shares in PAH on 30 October 2020.

(e) Land appreciation tax ("LAT")

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including the costs of land use rights, borrowing costs and all qualified property development expenditure. Significant judgement is required in determining the extent of LAT. The Group recognises LAT based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated income statement in the periods in which such tax is finalised with local tax authorities.

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.

Continuing operations

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

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

- Other businesses segment: mainly includes the financial investments, the provision of finance services, the provision of property management services and treasury operations.

Discontinued operations

- Property development segment (Macau): the development and sale of properties and interests in property development.

- Oil segment: oil exploration and production.

The property development in Macau and oil have been distributed and classified as discontinued operations and the related information has been set out in note 4.

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

Reportable segment profit represents profit before taxation by excluding fair value changes on interests in property development and investment properties, finance costs, 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

Continuing operations

	2020 $'000	2019 $'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Sale of properties	3,636,382	10,078,799
Property management service income	400,091	154,966
Others	178,362	117,537
	4,214,835	10,351,302
Revenue from other sources:		
Rental income	293,099	357,486
Others	198,103	128,696
	4,706,037	10,837,484

Discontinued operations

	2020 $'000	2019 $'000
Revenue from contracts with customers within the scope of HKFRS 15:		
Sale of properties	280	4,500
Sale of crude oil	25,127	61,342
Others	324	197
	25,731	66,039
Revenue from other source:		
Distributions from interests in property development	280,000	720,000
	305,731	786,039

At 31 December 2020, the aggregate amount of revenue expected to be recognised in the consolidated income statement in the future from pre-completion sales contracts entered into in relation to the Group's properties in Hong Kong and Mainland China amounted to $409,327,000 (2019: $3,523,417,000), which will be recognised when the pre-sold properties are assigned to or accepted by the customers and which is expected to occur within the next 24 months (2019: within the next 24 months).

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date with performance obligation is part of a contract that has an original expected duration of one year or less.

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 year is set out below.

	2020								
		Continuing operations					Discontinued operations		
			Property development					Property development	
	Total $'000	Sub-total $'000	Hong Kong $'000	Mainland China $'000	Property investment $'000	Others $'000	Sub-total $'000	Macau $'000	Oil $'000
Revenue	5,011,768	4,706,037	3,131,912	504,470	293,099	776,556	305,731	280,280	25,451
Reportable segment profit	1,899,060	1,685,670	1,201,157	(29,521)	307,367	206,667	213,390	286,330	(72,940)
Other net expenses	(33,270)	(33,270)	–	–	747	(34,017)	–	–	–
Fair value changes on investment properties	(562,037)	(562,037)	–	–	(562,037)	–	–	–	–
Fair value changes on interests in property development	118,394	31,741	–	31,741	–	–	86,653	86,653	–
Share of fair value changes on investment properties of a joint venture	(40,979)	(40,979)	–	–	(40,979)	–	–	–	–
Head office and corporate expenses	(110,045)	(110,045)					–		
Finance costs	(135,483)	(135,483)					–		
Profit before taxation	1,135,640	835,597					300,043		
Share of profits of associated companies	8,263	8,263	–	9,077	–	(814)	–	–	–
Share of profits of joint ventures	19,619	19,619	–	(1,193)	20,812	–	–	–	–
Interest income	197,284	197,284	–	–	–	197,284	–	–	–
Impairment of oil production and exploitation assets	(59,463)	–	–	–	–	–	(59,463)	–	(59,463)
Depreciation and amortisation	(40,556)	(30,862)	–	–	–	(30,862)	(9,694)	–	(9,694)

3 Segment reporting (Continued)

(b) Segment results and assets (Continued)

	2019								
		Continuing operations					Discontinued operations		
			Property development					Property development	
	Total $'000	Sub-total $'000	Hong Kong $'000	Mainland China $'000	Property investment $'000	Others $'000	Sub-total $'000	Macau $'000	Oil $'000
Revenue	11,623,523	10,837,484	8,273,300	1,805,499	357,486	401,199	786,039	724,500	61,539
Reportable segment profit	4,015,195	3,543,601	2,930,848	60,289	402,252	150,212	471,594	729,053	(257,459)
Other net expenses	(348,896)	(348,896)	–	(348,979)	300	(217)	–	–	–
Fair value changes on investment properties	(299,047)	(299,047)	–	–	(299,047)	–	–	–	–
Fair value changes on interests in property development	215,569	(36,736)	–	(36,736)	–	–	252,305	252,305	–
Share of fair value changes on investment properties of a joint venture	9,240	9,240	–	–	9,240	–	–	–	–
Head office and corporate expenses	(128,785)	(128,785)							
Finance costs	(290,496)	(290,496)							
Profit before taxation	3,172,780	2,448,881					723,899		
Share of profits of associated companies	10,203	10,203	–	8,445	–	1,758	–	–	–
Share of profits of joint ventures	23,434	23,434	–	(53,814)	77,248	–	–	–	–
Interest income	128,177	128,177	–	–	–	128,177	–	–	–
Write down of inventories	(348,979)	(348,979)	–	(348,979)	–	–	–	–	–
Impairment of oil production and exploitation assets	(231,573)	–	–	–	–	–	(231,573)	–	(231,573)
Depreciation and amortisation	(49,893)	(25,736)	–	–	–	(25,736)	(24,157)	–	(24,157)

3 Segment reporting (Continued)

(b) Segment results and assets (Continued)

	2020				
		Property development			
	Total $'000	Hong Kong $'000	Mainland China $'000	Property investment $'000	Others $'000
Reportable segment assets	**32,822,767**	**6,211,195**	**14,775,842**	**9,884,136**	**1,951,594**
Deferred tax assets	**37,409**				
Pledged deposits	**13,692**				
Cash and bank balances	**1,133,841**				
Head office and corporate assets	**96,768**				
Total assets	**34,104,477**				
Interest in associated companies	**1,527,988**	**–**	**1,526,447**	**–**	**1,541**
Interest in and amounts due from joint ventures	**2,180,535**	**–**	**2,180,535**	**–**	**–**

	2019						
		Property development					
	Total $'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 deposits	15,000						
Cash and bank balances	3,259,366						
Head office and corporate assets	121,236						
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	–	–

3 Segment reporting (Continued)

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial assets and deferred tax assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of non-current assets is based on the physical location of the asset and, in case of interests in associated companies and joint ventures, the location of operations.

	Revenue		Non-current assets	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Continuing operations				
Hong Kong (place of domicile)	**4,056,073**	8,990,196	**10,149,229**	10,925,867
Mainland China	**544,939**	1,841,764	**3,597,570**	4,607,280
Others	**105,025**	5,524	**–**	–
	4,706,037	10,837,484	**13,746,799**	15,533,147
Discontinued operations				
Macau	**280,280**	724,500	**–**	1,523,416
Kazakhstan	**25,451**	61,539	**–**	66,706
	305,731	786,039	**–**	1,590,122
	5,011,768	11,623,523	**13,746,799**	17,123,269

In addition to the above non-current assets, the Group has interests in property development of Nil (2019: $10,826,000,000) and $1,811,771,000 (2019: $1,780,030,000) in Macau and Mainland China respectively.

(d) Major customers and suppliers

During the year ended 31 December 2020 and 2019, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

4 Discontinued operations

On 19 August 2020, the Board of Directors declared a special dividend that was satisfied by way of distribution in specie of the shares in PAH held by the Group to the shareholders of the Company. Details of the distribution in specie are disclosed in note 9(a).

Upon completion of the distribution in specie, the Group no longer engages in property development in Macau and oil operation which were solely attributable to PAH. Accordingly, these operations were classified as discontinued operations.

The distribution in specie was completed on 30 October 2020 and the Group's property development in Macau and oil operation ceased thereafter.

(a) The results of discontinued operations are as follows:

	2020 $'000	2019 $'000
Revenue	**305,731**	786,039
Cost of sales	**(21,689)**	(50,167)
Other revenue	**8,075**	9,172
Depreciation and amortisation	**(127)**	(301)
Staff costs	**(8,591)**	(12,273)
Selling, marketing and distribution expenses	**(5,688)**	(19,306)
Impairment of oil production and exploitation assets	**(59,463)**	(231,573)
Other operating expenses	**(4,858)**	(9,997)
Fair value changes on interests in property development	**86,653**	252,305
Profit before taxation	**300,043**	723,899
Income tax	**(4,329)**	(29,415)
Profit for the year from discontinued operations	**295,714**	694,484
Attributable to:		
Shareholders of the Company	**209,336**	491,625
Non-controlling interests	**86,378**	202,859
	295,714	694,484

(b) The cash flows of discontinued operations are as follows:

	2020 $'000	2019 $'000
Cash flows generated from/(used in) operating activities	**9,023**	(4,018)
Cash flows used in investing activities	**(2,457)**	(87)
Cash flows used in financing activities	**(2,950)**	(2,213)
Net cash flows	**3,616**	(6,318)

5 Profit before taxation from continuing operations

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

(a) Other net expenses mainly represent provision for loss allowance of debt investments of $20,045,000 and fair value changes on equity securities and investment fund of $13,972,000 (2019: written down of inventories of $348,979,000).

(b) Finance costs

	2020 $'000	2019 $'000
Interest on bank loans	**314,184**	389,415
Interest on loans from related companies	**22,409**	113,084
Less: Amount capitalised *(Remark)*	**(201,110)**	(212,003)
	135,483	290,496

Remark: Borrowing costs were capitalised at rates of 1.31% – 6.18% (2019: 2.04% – 6.65%) per annum.

(c) Other items

	2020 $'000	2019 $'000 (restated)
Auditors' remuneration	**5,299**	5,271
Depreciation and amortisation of property, plant and equipment	**30,862**	25,736
Staff costs *(Remark)*	**623,824**	357,274
Total staff costs	**658,633**	392,907
Less: Amount capitalised	**(34,809)**	(35,633)
Impairment of trade receivables and loans and advances	**8,849**	380
Impairment of trade receivables and loans and advances written back	**(133)**	(5,281)
Rentals receivable from investment properties less outgoings	**(241,862)**	(328,851)
Rental income	**(293,099)**	(357,486)
Less: Outgoings	**51,237**	28,635
Interest income	**(197,284)**	(128,177)

Remark: Selling, marketing and distribution expenses includes $11,352,000 (2019: $14,187,000) relating to staff costs, which amount is also included in the respective total amounts disclosed separately above.

6 Directors' and management's emoluments

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 383(1) to the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2020 Total $'000
Executive directors					
Mr Or Wai Sheun *(Remark)*	–	–	–	–	–
Mr Lai Ka Fai *(Remark)*	166	2,464	560	227	3,417
Mr Or Pui Kwan	–	1,269	250	18	1,537
Mr Lam Yung Hei	–	1,269	400	18	1,687
Non-executive directors					
Ms Ng Chi Man	280	–	–	–	280
Mr Yeung Kwok Kwong *(Remark)*	280	2,144	422	198	3,044
Independent non-executive directors					
Mr Li Kwok Sing, Aubrey	280	–	–	–	280
Mr Lok Kung Chin, Hardy	280	–	–	–	280
Mr Seto Gin Chung, John	280	–	–	–	280
Mr David John Shaw	280	–	–	–	280
	1,846	7,146	1,632	461	11,085

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Performance related bonuses $'000	Provident fund contributions $'000	2019 Total $'000
Executive directors					
Mr Or Wai Sheun *(Remark)*	–	–	–	–	–
Mr Lai Ka Fai *(Remark)*	200	2,425	550	224	3,399
Mr Or Pui Kwan	–	1,163	250	18	1,431
Mr Lam Yung Hei	–	1,223	350	18	1,591
Non-executive directors					
Ms Ng Chi Man	280	–	–	–	280
Mr Yeung Kwok Kwong *(Remark)*	280	2,560	500	236	3,576
Independent non-executive directors					
Mr Li Kwok Sing, Aubrey	280	–	–	–	280
Mr Lok Kung Chin, Hardy	280	–	–	–	280
Mr Seto Gin Chung, John	280	–	–	–	280
Mr David John Shaw	280	–	–	–	280
	1,880	7,371	1,650	496	11,397

Remark: Mr Or Wai Sheun, Mr Lai Ka Fai and Mr Yeung Kwok Kwong's remuneration of Nil, $166,000 and $2,764,000 (2019: Nil, $200,000 and $3,296,000) were paid by PAH directly.

6 Directors' and management's emoluments (Continued)

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2019: two) are directors whose emoluments are disclosed in note 6(a). The aggregate of the emoluments in respect of the remaining three (2019: three) individuals are as follows:

	2020 $'000	2019 $'000
Salaries and allowances	**5,880**	8,891
Performance related bonuses	**1,532**	2,638
Provident fund contributions	**192**	54
	7,604	11,583

The emoluments of the individuals with the highest emoluments are within the following bands:

	2020	2019
$2,000,001 – $3,000,000	**2**	1
$3,000,001 – $4,000,000	**1**	1
$4,000,001 – $5,000,000	**–**	–
$5,000,001 – $6,000,000	**–**	–
$6,000,001 – $7,000,000	**–**	1

7 Income tax

(a) Taxation from continuing operations in the consolidated income statement represents:

	2020 $'000	2019 $'000 (restated)
Current tax – Hong Kong		
Provision for the year	**248,237**	500,027
Under-provision in respect of prior years	**9,048**	28,458
	257,285	528,485
Current tax – Outside Hong Kong		
Provision for the year	**4,349**	28,414
Over-provision in respect of prior years	**(24)**	(1,065)
	4,325	27,349
LAT	**–**	15,494
Deferred tax		
Origination and reversal of temporary differences	**(28,175)**	(89,939)
	233,435	481,389

The provision for Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year.

Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in relevant jurisdictions.

Under the Provisional Regulations on LAT in Mainland China, all gains arising from the transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sale of properties less deductible expenditure including the costs of land use rights, borrowing costs and all property development expenditure.

Mainland China tax law also imposed a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future. The Group did not recognise any withholding tax for the year of 2020 and 2019.

7 Income tax (Continued)

(b) Reconciliation between tax expense and accounting profit from continuing operations at applicable tax rates:

	2020 $'000	2019 $'000 (restated)
Profit before taxation from continuing operations	**835,597**	2,448,881
Tax at applicable tax rates	**140,088**	399,192
Non-deductible expenses	**112,284**	118,633
Non-taxable income	**(37,250)**	(16,900)
Unrecognised tax losses	**12,041**	4,434
Previously unrecognised tax losses utilised	**(245)**	(33,013)
Tax effect of temporary differences not recognised	**(45)**	48,926
Tax effect of temporary differences derecognised	**(1,230)**	(58,301)
LAT on properties sold	**(961)**	(8,956)
Under-provision in respect of prior years	**9,024**	27,393
Others	**(271)**	(19)
Actual tax expense	**233,435**	481,389

8 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 arising from continuing operations and discontinued operations of $591,532,000 (2019: $1,958,108,000) and $209,336,000 (2019: $491,625,000) respectively and the weighted average number of ordinary shares in issue during the year of 1,176,631,296 (2019: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the years ended 31 December 2020 and 2019.

9 Dividends

(a) Dividends attributable to the year

	2020 $'000	2019 $'000
Cash dividends		
Interim dividend declared and paid of $0.24 (2019: $0.24) per share	**282,392**	282,392
Final dividend proposed after the end of the reporting period of $0.56 (2019: $0.54) per share	**658,914**	635,381
	941,306	917,773

On 19 August 2020, the Board of Directors declared a special dividend which was satisfied by way of distribution of specie on the basis of 2.67 ordinary shares of PAH for every 1 ordinary share of the Company.

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

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2020 $'000	2019 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.54 (2019: $0.50) per share	**635,381**	588,316

10 Deferred taxation

(a) The components of deferred tax (liabilities)/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Future benefit of tax losses $'000	Revaluation of properties $'000	Accelerated depreciation allowances $'000	Others $'000	Total $'000
At 1 January 2019	29,721	(619,939)	(33,470)	18,512	(605,176)
Exchange adjustments	–	4,784	–	–	4,784
Acquisition of subsidiaries	–	–	75	–	75
(Charged)/Credited to the income statement					
– continuing operations	(16,743)	111,066	(841)	(3,543)	89,939
– discontinued operations	–	–	(23,813)	(14,614)	(38,427)
At 31 December 2019	12,978	(504,089)	(58,049)	355	(548,805)
At 1 January 2020	**12,978**	**(504,089)**	**(58,049)**	**355**	**(548,805)**
Exchange adjustments	**–**	**(13,770)**	**–**	**–**	**(13,770)**
(Charged)/Credited to the income statement					
– continuing operations	**(1,723)**	**2,561**	**36,793**	**(9,456)**	**28,175**
– discontinued operations	**–**	**–**	**(3,800)**	**–**	**(3,800)**
Distribution in specie *(note 25(d))*	**–**	**47,651**	**189**	**(1,734)**	**46,106**
At 31 December 2020	**11,255**	**(467,647)**	**(24,867)**	**(10,835)**	**(492,094)**

	2020 $'000	2019 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**37,409**	53,523
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(529,503)**	(602,328)
	(492,094)	(548,805)

10 Deferred taxation (Continued)

(b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $163,114,000 (2019: $265,611,000) and temporary difference of $195,529,000 (2019: $1,449,415,000) as the probability of generating future taxable profits in order to utilise the tax losses and temporary difference is uncertain at this point of time. The tax losses arising from Hong Kong operations do not expire under current tax legislation.The tax losses arising from the operations in Mainland China expire five years after the relevant accounting year end date. The tax losses arising from the operations in Kazakhstan will expire ten years after the relevant accounting year end date. Such tax losses of $150,360,000 (2019: $134,756,000) have been distributed by the Group through the distribution in specie of shares in PAH on 30 October 2020.

11 Investment properties

(a) Reconciliation of carrying amount

	Investment properties completed $'000	Investment properties under development $'000	Total $'000
Valuation			
At 1 January 2019	9,026,150	1,581,700	10,607,850
Additions	–	119,347	119,347
Disposals	(3,200)	–	(3,200)
Transfer in/(out)	584,341	(584,341)	–
Fair value adjustment	(168,941)	(130,106)	(299,047)
At 31 December 2019	9,438,350	986,600	10,424,950
At 1 January 2020	**9,438,350**	**986,600**	**10,424,950**
Additions	**–**	**4,967**	**4,967**
Disposals	**(8,250)**	**–**	**(8,250)**
Transfer in/(out)	**54,186**	**(54,186)**	**–**
Fair value adjustment	**(348,656)**	**(213,381)**	**(562,037)**
At 31 December 2020	**9,135,630**	**724,000**	**9,859,630**

The fair value adjustment on investment properties is recognised in the line item "Fair value changes on investment properties" on the face of the consolidated income statement.

11 Investment properties (Continued)

(b) Fair values measurement of investment properties

The fair value of the Group's investment properties falls under Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used valuation technique.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: Nil).

The investment properties of the Group were revalued at 31 December 2020 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The Group's top management hold discussions with the valuer on the valuation assumptions and valuation results at each interim and annual reporting date.

Information about Level 3 fair value measurements

	Valuation techniques (Note 2(a))	**Unobservable input**	**Rate**	**Remark**
Investment properties completed	Income capitalisation approach	Capitalisation rate	3.75% to 4.75% (2019: 3.75% to 4.75%)	(1)
Investment properties under development	Direct comparison approach	Unit sale rate	$10,100 per square foot (2019: $10,100 to $15,500 per square foot)	(2)

Remarks:

Relationship of unobservable inputs to fair value:

(1) The fair value is negatively correlated to the unobservable input that the lower the factor the higher the fair value.
(2) The fair value is positively correlated to the unobservable input that the higher the factor the higher the fair value.

The movements during the year in the balance of these Level 3 fair value measurements are set out in note 11(a) to the financial statements.

11 Investment properties (Continued)

(c) Analysis of the carrying values of interests in leasehold investment properties

	2020 $'000	2019 $'000
In Hong Kong, with remaining lease term of:		
– 50 years or more	**7,816,220**	8,053,400
– between 10 and 50 years	**2,043,410**	2,371,550
	9,859,630	10,424,950

(d) Investment properties leased out

The Group leases out investment properties under operating leases. The leases typically run for an initial period of several months to four years. Some leases have an option to renew on expiry at which time all terms are renegotiated. Some leases have provisions for turnover rent. Turnover rent of $918,000 was recognised in 2020 (2019: $2,125,000).

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2020 $'000	2019 $'000
Within 1 year	**239,955**	223,443
After 1 year but within 2 years	**137,601**	134,460
After 2 years but within 3 years	**48,755**	49,714
After 3 years but within 4 years	**1,756**	10,767
	428,067	418,384

12 Property, plant and equipment

(a) Reconciliation of carrying amount

	Leasehold land held for own use $'000	Other property, plant and equipment Buildings $'000	Oil production assets $'000	Others $'000	Total $'000
Cost					
At 1 January 2019	394,256	157,110	1,504,049	112,571	2,167,986
Exchange adjustments	–	–	–	(357)	(357)
Arising from acquisition of subsidiaries	7,965	3,982	–	5,306	17,253
Additions	–	–	68	47,195	47,263
Disposals	–	–	(433)	(1,654)	(2,087)
At 31 December 2019	402,221	161,092	1,503,684	163,061	2,230,058
At 1 January 2020	**402,221**	**161,092**	**1,503,684**	**163,061**	**2,230,058**
Exchange adjustments	**–**	**–**	**–**	**1,222**	**1,222**
Additions	**–**	**–**	**2,457**	**12,452**	**14,909**
Disposals	**–**	**–**	**(32)**	**(832)**	**(864)**
Distribution in specie *(Note 25(d))*	**(263,760)**	**(31,240)**	**(1,506,109)**	**(49,702)**	**(1,850,811)**
At 31 December 2020	**138,461**	**129,852**	**–**	**126,201**	**394,514**
Accumulated depreciation, amortisation and impairment losses					
At 1 January 2019	86,739	11,116	1,208,858	94,155	1,400,868
Exchange adjustments	–	–	–	(292)	(292)
Arising from acquisition of subsidiaries	1,016	508	–	4,671	6,195
Charge for the year	10,743	4,919	23,465	10,271	49,398
Impairment losses *(Note 2(d))*	–	–	210,731	–	210,731
Written back on disposals	–	–	(75)	(1,295)	(1,370)
At 31 December 2019	98,498	16,543	1,442,979	107,510	1,665,530
At 1 January 2020	**98,498**	**16,543**	**1,442,979**	**107,510**	**1,665,530**
Exchange adjustments	**–**	**–**	**–**	**1,029**	**1,029**
Charge for the year	**9,805**	**4,863**	**8,942**	**16,388**	**39,998**
Impairment losses *(Note 2(d))*	**–**	**–**	**54,214**	**–**	**54,214**
Written back on disposals	**–**	**–**	**(26)**	**(757)**	**(783)**
Distribution in specie *(Note 25(d))*	**(96,640)**	**(11,482)**	**(1,506,109)**	**(42,772)**	**(1,657,003)**
At 31 December 2020	**11,663**	**9,924**	**–**	**81,398**	**102,985**
Carrying value					
At 31 December 2020	**126,798**	**119,928**	**–**	**44,803**	**291,529**
At 31 December 2019	303,723	144,549	60,705	55,551	564,528

12 Property, plant and equipment (Continued)

(a) Reconciliation of carrying amount (Continued)

In 2020, an amount of $194,000 (2019: $197,000) included in the depreciation and amortisation charge for the year was capitalised under inventories.

Key sources of estimation uncertainty relating to oil production assets are disclosed in note 2(d).

(b) Analysis of the carrying values of right-of-use assets by class of underlying asset:

	2020 $'000	2019 $'000
Ownership interests in leasehold land and buildings held for own use in Hong Kong with remaining lease term of:		
– 50 years or more	**1,797**	1,825
– between 10 and 50 years	**244,929**	446,447
	246,726	448,272

(c) Analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 $'000	2019 $'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	**14,668**	15,662

In 2019, additions to right-of-use assets were $10,423,000 through acquisition of subsidiaries.

(d) Ownership interests in leasehold land and buildings held for own use

The Group holds several buildings for its property management, retailing and ice and storage business. The Group is the registered owner of these property interests. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

13 Oil exploitation assets

	2020 $'000	2019 $'000
Cost		
At 1 January	**130,589**	130,570
Additions	**–**	19
Distribution in specie *(Note 25(d))*	**(130,589)**	–
At 31 December	**–**	130,589
Accumulated amortisation and impairment losses		
At 1 January	**124,588**	103,054
Amortisation for the year	**752**	692
Impairment loss *(Note 2(d))*	**5,249**	20,842
Distribution in specie *(Note 25(d))*	**(130,589)**	–
At 31 December	**–**	124,588
Carrying value		
At 31 December	**–**	6,001

Key sources of estimation uncertainty relating to oil exploitation assets are disclosed in note 2(d).

14 Interests in property development

	2020 $'000	2019 $'000
At 1 January	**14,053,523**	13,837,954
Distributions	**(280,000)**	(720,000)
Change in fair value recognised in profit or loss	**398,394**	935,569
Net changes in fair value		
– continuing operations	**31,741**	(36,736)
– discontinued operations	**86,653**	252,305
Distribution in specie *(Note 25(d))*	**(12,360,146)**	–
At 31 December	**1,811,771**	14,053,523
Representing:		
Non-current assets	**1,811,771**	12,606,030
Current assets	**–**	1,447,493
	1,811,771	14,053,523

14 Interests in property development (Continued)

Interests in property development represent the Group's interests in the development of a property located in Mainland China (2019: various properties located in Macau and Mainland China) under the co-investment agreements with Polytec Holdings (2019: 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 project which is subject to an aggregate maximum amount. In return, Polytec Holdings (2019: Polytec Holdings and its two wholly owned subsidiaries) will pay to the Group cash flows from the property development project according to the formulae set out in the co-investment agreement. Details of the funding arrangements and other key terms of the co-investment agreement are disclosed in the Company's Circulars dated 30 October 2013 (2019: 23 May 2006 and 30 October 2013). The basis and estimations for arriving at the fair value of the interests in property development are further described in note 2(c).

During the year ended 31 December 2020, pursuant to the co-investment agreements, distributions of $280,000,000 (2019: $720,000,000) were made by one of the Polytec Holdings wholly owned subsidiaries, in relation to the property development projects at Lotes T+T1. Income arising from interests in property development recognised in the consolidated income statement from the distributions during the year ended 31 December 2020 amounted to $280,000,000 (2019: $720,000,000).

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

15 Interest in joint ventures

	2020 **$'000**	2019 $'000
Share of net assets	**1,848,152**	4,141,181
Goodwill	**–**	62,089
Loans to joint ventures	**219,500**	417,916
	2,067,652	4,621,186
Amounts due from joint ventures	**112,883**	316,005
Amount due to a joint venture	**(477,046)**	(470,542)
	1,703,489	4,466,649

Loans to joint ventures are unsecured, interest bearing at a fixed rate with reference to bank lending rates and are not expected to be repaid within one year.

The amounts due from and to joint ventures are unsecured, interest-free and recoverable/repayable on demand.

During the year, the Group has recognised interest income of $24,980,000 (2019: $13,418,000) from joint ventures.

15 Interest in joint ventures (Continued)

Details of the Group's material interest in joint ventures which are accounted for using the equity method in the consolidated financial statements are as follows:

Joint venture	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
CITIC Polytec Property (Foshan) Company Limited *(Remark 1)*	Mainland China	50.0% (2019: 50.0%)	50.0% (2019: 50.0%)	– (2019: Nil)	Property development
South Bay Centre Company Limited *(Remark 2)*	Macau	– (2019: 35.4%)	– (2019: Nil)	– (2019: 50.0%)	Property investment and trading
Smart Rising Limited *(Remark 2)*	British Virgin Islands/ Mainland China	– (2019: 35.4%)	– (2019: Nil)	– (2019: 50.0%)	Investment holding and property development

Remarks:

(1) CITIC Polytec Property (Foshan) Company Limited is an equity joint venture in Mainland China. It has a wholly owned subsidiary incorporated in Mainland China namely 佛山市山語湖酒店物業管理有限公司 whose principal business is the provision of property management services. The Group's effective interest is 50%.

(2) During the year ended 2020, the equity interests in South Bay Centre Company Limited and Smart Rising Limited have been distributed by the Group through the distribution in specie of shares in PAH as disclosed in note 9(a).

All joint ventures are unlisted corporate entities for which quoted market price are not available.

The aggregate financial information of joint ventures that are individually immaterial is as follows:

	2020 $'000	2019 $'000
Share of net assets	**1,848,152**	4,141,181
Goodwill	**–**	62,089
Carrying amount in the consolidated financial statements	**1,848,152**	4,203,270
The Group's effective share of joint ventures:		
Profit for the year	**19,619**	23,434
Other comprehensive income	**157,428**	(63,923)
Total comprehensive income	**177,047**	(40,489)

16 Interest in associated companies

	2020 $'000	2019 $'000
Share of net assets	**1,222,539**	1,110,702
Loan to an associated company	**305,449**	395,902
	1,527,988	1,506,604
Loan from an associated company	**(47,075)**	(44,229)
	1,480,913	1,462,375

Loan to an associated company is unsecured, interest bearing at a rate determined by the shareholders and not expected to be repaid within one year. During the year, interest income of $5,297,000 (2019: $3,748,000) was recognised in profit or loss and included in the share of profits of associated companies. As at 31 December 2020, accumulated accrued interest income of approximately RMB1,091,000,000 (2019: RMB995,000,000) due from an associated company has not been recognised as the Group considers it is not probable that the economic benefits will flow to the Group as at the end of the reporting period.

Loan from an associated company is unsecured, interest-free and repayable on demand.

All of the associated companies are unlisted corporate entities for which quoted market prices are not available.

Associated company	Place of incorporation/ operation	Proportion of ownership interest		Principal activities
		Direct	Indirect	
COLI Polytec Property (Tianjin) Co., Ltd (formerly known as "CITIC Polytec Property (Tianjin) Co., Ltd")	Mainland China	49.0% (2019: 39.0%) *(Remark)*	– (2019: Nil)	Property development
Jeeves (HK) Limited	Hong Kong	– (2019: Nil)	34.5% (2019: 34.5%)	Provision of high class dry cleaning and valeting services
東莞市嘉安達房地產開發有限公司	Mainland China	– (2019: Nil)	40.0% (2019: 40.0%)	Property development

Remark: In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, the Group is entitled to a share of 49% of profits of the associated company and a 10% of the equity interest in the associated company was to have been transferred to the Group upon full payment of the acquisition consideration. The transfer of the 10% registered capital had been completed during the year.

16 Interest in associated companies (Continued)

All of the associated companies are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of COLI Polytec Property (Tianjin) Co., Ltd (formerly known as "CITIC Polytec Property (Tianjin) Co., Ltd"), a material associated company, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	2020 $'000	2019 $'000
Gross amounts of the associated company		
Current assets	**12,551,434**	7,104,850
Non-current assets	**624**	1,444
Current liabilities	**(10,100,951)**	(4,827,355)
Non-current liabilities	**(17,424)**	–
Net assets	**2,433,683**	2,278,939
Revenue	**104,898**	83,105
Profit for the year	**7,713**	10,068
Other comprehensive income	**147,031**	(50,864)
Total comprehensive income	**154,744**	(40,796)
Interest income received/receivable from the associated company	**5,297**	3,748
Reconciled to the Group's interest in the associated companies		
Gross amounts of the net assets of the associated company	**2,433,683**	2,278,939
Group's effective interest	**49%**	49%
Group's shares of net assets of the associated company	**1,192,505**	1,116,680
Transfer of 10% registered capital to be completed	**–**	(35,104)
Carrying amount in the consolidated financial statements	**1,192,505**	1,081,576

The aggregate financial information of associated companies that are individually immaterial is as follows:

	2020 $'000	2019 $'000
Carrying amount in the consolidated financial statements	**30,034**	29,126
The Group's effective share of associated companies:		
(Loss)/Profit for the year	**(813)**	1,522
Other comprehensive income	**1,722**	(599)
Total comprehensive income	**909**	923

17 Other financial assets

	2020 $'000	2019 $'000
Non-current		
Debt investments measured at amortised cost		
Listed debt securities in Hong Kong	–	34,401
Listed debt securities outside Hong Kong	916,503	126,649
	916,503	161,050
Current		
Equity investments measured at FVPL		
Listed equity securities in Hong Kong	31,772	15,418
Unlisted investment fund	73,899	–
	105,671	15,418
Total	1,022,174	176,468
Market value of listed debt securities	929,551	167,298

18 Inventories

	2020 $'000	2019 $'000
Land/Properties held for future development	5,394,686	4,494,635
Properties under development	8,348,886	8,486,061
Properties held for sale	1,293,661	1,766,575
Trading goods and consumables	3,383	10,474
	15,040,616	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 $5,394,686,000 (2019: $4,494,635,000) and $8,348,886,000 (2019: $7,115,008,000) respectively. All of the other inventories are expected to be recovered within one year.

18 Inventories (Continued)

The analysis of carrying value of land under inventories is as follows:

	2020 $'000	2019 $'000
In Hong Kong, with remaining lease term of:		
– 50 years or more	**1,354,805**	1,684,504
– between 10 and 50 years	**3,137,987**	3,282,738
	4,492,792	4,967,242
Outside Hong Kong, with remaining lease term of:		
– Freehold/Unspecified	**–**	32,625
– 50 years or more	**2,306,115**	1,839,505
– between 10 and 50 years	**4,605,765**	4,366,333
	6,911,880	6,238,463
	11,404,672	11,205,705

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2020 $'000	2019 $'000
Continuing operations		
Carrying amount on inventories sold	**2,184,685**	6,533,907
Write down of inventories	**–**	348,979
	2,184,685	6,882,886
Discontinued operations		
Carrying amount on inventories sold	**21,689**	50,167
	2,206,374	6,933,053

19 Trade and other receivables/Loans and advances

(a) The following is an ageing analysis (based on the due date) of trade receivables and loans and advances (net of loss allowance) at 31 December:

	2020 $'000	2019 $'000
Current	**734,786**	935,898
Within 3 months	**37,076**	18,845
3 months to 6 months	**5,587**	3,983
More than 6 months	**7,943**	11,251
Trade receivables and loans and advances	**785,392**	969,977
Utility and other deposits	**21,749**	186,571
Prepaid tax	**88,745**	89,021
Other receivables and prepayments	**289,406**	631,124
	1,185,292	1,876,693
Representing:		
Non-current assets	**601,644**	583,171
Current assets	**583,648**	1,293,522
	1,185,292	1,876,693

Utility and other deposits of the Group of $7,599,000 (2019: $8,250,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $122,399,000 (2019: $8,124,000) are expected to be recovered after more than one year.

Included in utility and other deposits as at 31 December 2019 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.

19 Trade and other receivables/Loans and advances (Continued)

(b) Expected credit losses

As at 31 December 2020 and 2019, the Group measures loss allowance for trade receivables and loans and advances at an amount equal to lifetime ECLs. Given the Group has not experienced any significant credit losses in the past, holds sufficient rental deposits from tenants and hold properties as collateral from customers and borrowers to cover the potential exposure to credit risk, the allowance for ECLs is $22,745,000 (2019: $14,093,000).

The movement for the Group in the loss allowance for impairment of trade receivables and loans and advances during the year, including both specific and collective loss components, is as follows:

	2020 $'000	2019 $'000
At 1 January	**14,093**	18,994
Impairment loss recognised	**8,849**	380
Impairment loss written back	**(133)**	(5,281)
Distribution in specie	**(64)**	–
At 31 December	**22,745**	14,093

20 Trade and other payables

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

	2020 $'000	2019 $'000
Not yet due or on demand	**1,792,205**	1,736,530
Within 3 months	**1,923**	3,503
3 months to 6 months	**–**	107
More than 6 months	**9**	24
Trade payables	**1,794,137**	1,740,164
Rental and other deposits	**72,759**	78,278
Other payables and accrued expenses	**300,661**	328,268
Contract liabilities – deposits received on sale of properties	**236,085**	1,912,350
	2,403,642	4,059,060

20 Trade and other payables (Continued)

(a) Rental and other deposits of the Group of $70,031,000 (2019: $74,951,000) are expected to be refunded after more than one year.

(b) Payables and accrued expenses of the Group of $78,551,000 (2019: $78,759,000) are expected to be settled after more than one year.

(c) Deposits received on sale of properties of the Group of $151,388,000 (2019: $1,912,350,000) are expected to recognise as income within one year.

(d) Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Deposits received on sales of properties

The Group receives certain percentage of the amount of sale consideration as a deposit from customers when they sign the sale and purchase agreement relating to property sales. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the sale consideration is typically paid when legal assignment is completed/accepted by the customer.

In some sale arrangements, the customers agree to pay the balance of the sale consideration early while construction is still ongoing, rather than when legal assignment is completed or the property is accepted by the customer. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the sale consideration.

Movements in contract liabilities

	Deposits received on sale of properties	
	2020 $'000	2019 $'000
At 1 January	**1,912,350**	4,492,134
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(1,917,407)**	(3,436,615)
Increase in contract liabilities as a result of deposits received from customers on sale of properties during the year	**232,916**	869,521
Exchange movement	**8,226**	(12,690)
At 31 December	**236,085**	1,912,350

21 Amount due from a related company

The amount due from a related company of $500,000,000 as at 31 December 2019 was arisen from the distributions from the interests in property development. The amounts was unsecured, interest-free and subsequently settled against the loan from a related company during the year ended 31 December 2020.

22 Loan from a related company

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

23 Bank loans

At 31 December, bank loans were repayable as follows:

	2020 $'000	2019 $'000
Within 1 year or on demand	**5,747,849**	1,526,686
After 1 year but within 2 years	**738,966**	8,657,659
After 2 years but within 5 years	**5,388,435**	773,129
More than 5 years	**–**	2,634
	6,127,401	9,433,422
	11,875,250	10,960,108

At 31 December, bank loans were secured and unsecured as follows:

	2020 $'000	2019 $'000
Bank loans		
– secured	**10,604,682**	9,774,941
– unsecured	**1,270,568**	1,185,167
	11,875,250	10,960,108

Interest on bank loans is charged at HIBOR plus a margin per annum in Hong Kong or by reference to interest rates for term loans published by the People's Bank of China.

24 Total equity

(a) Movements in components of equity and distribution of reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital $'000	Retained profits $'000	Total $'000
At 1 January 2019		8,636,490	7,355,154	15,991,644
Final dividend declared and paid	9(b)	–	(588,316)	(588,316)
Interim dividend declared and paid	9(a)	–	(282,392)	(282,392)
Profit and total comprehensive for the year		–	2,083,323	2,083,323
At 31 December 2019		8,636,490	8,567,769	17,204,259
At 1 January 2020		**8,636,490**	**8,567,769**	**17,204,259**
Final dividend declared and paid	9(b)	**–**	**(635,381)**	**(635,381)**
Interim dividend declared and paid	9(a)	**–**	**(282,392)**	**(282,392)**
Special dividend by way of distribution in specie		**–**	**(4,321,080)**	**(4,321,080)**
Profit and total comprehensive for the year		**–**	**2,025,273**	**2,025,273**
At 31 December 2020		**8,636,490**	**5,354,189**	**13,990,679**

At 31 December 2020, the aggregate amount of reserves available for distribution to shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance was $5,354,189,000 (2019: $2,125,397,000).

24 Total equity (Continued)

(b) Share capital

	2020		2019	
	No. of shares	**Amount $'000**	No. of shares	Amount $'000
Ordinary shares, issued and fully paid				
At 1 January and 31 December	**1,176,631,296**	**8,636,490**	1,176,631,296	8,636,490

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from related companies, amounts due from related companies, cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's net borrowings (bank borrowings plus loans from a related company, net of cash and bank balances and amounts due from a related company) over equity attributable to shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2020 is 65.5% (2019: 41.3%).

25 Notes to consolidated cash flow statement

(a) Reconciliation of profit before taxation to net cash generated from operating activities:

	2020 $'000	2019 $'000
Profit before taxation		
– Continuing operations	835,597	2,448,881
– Discontinued operations	300,043	723,899
	1,135,640	3,172,780
Adjustments for:		
Unclaimed dividend written back	(543)	(523)
Loss on disposal of other property, plant and equipment	69	27
Gain on disposal of investment properties	(747)	(300)
Share of profits of associated companies	(8,263)	(10,203)
Share of profits of joint ventures	(19,619)	(23,434)
Distributions from interests in property development	(280,000)	(720,000)
Write down of inventories	–	348,979
Impairment of oil production and exploitation assets	59,463	231,573
Loss allowance of debts securities	20,045	–
Fair value changes on investment properties	562,037	299,047
Fair value changes on interests in property development	(118,394)	(215,569)
Gain on disposal of equity securities	–	(802)
Fair value changes on equity securities and investment fund	13,972	175
Dividend income from equity securities	(819)	(519)
Interest income from debt securities	(107,656)	(6,518)
Interest income from joint ventures	(24,980)	(13,418)
Bank interest income	(28,967)	(57,528)
Interest expenses	135,483	290,496
Depreciation and amortisation	40,556	49,893
Operating profit before working capital changes	1,377,277	3,344,156
(Increase)/Decrease in loans and advances	(31,502)	342,373
Decrease in inventories	234,295	4,962,845
Decrease/(Increase) in trade and other receivables	609,106	(186,706)
Decrease in trade and other payables	(1,639,607)	(2,374,694)
Decrease in amounts due to a joint venture	–	(177,125)
Cash generated from operations	549,569	5,910,849
Interest received	65,120	53,185
Interest paid	(339,611)	(503,790)
Dividends received from equity investments	819	519
Profits tax paid	(401,631)	(45,389)
Net cash (used in)/generated from operating activities	(125,734)	5,415,374

25 Notes to consolidated cash flow statement (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows financing activities.

	Bank loans $'000 (Note 23)	Loans from related companies $'000 (Note 22)	Loan from an associated company $'000 (Note 16)	Total $'000
At 1 January 2019	15,281,429	4,274,519	45,218	19,601,166
Cash flows, net	(4,307,765)	1,311,075	–	(2,996,690)
Other changes:				
Non-cash repayment of loans from related companies *(Notes 25(e)(i) and 25(e)(iv))*	–	(5,209,399)	–	(5,209,399)
Non-cash drawdown of loans from related companies *(Notes 25(e)(ii) and 25(e)(iv))*	–	3,637,434	–	3,637,434
Acquisition of subsidiaries *(Note 25(c))*	13,699	–	–	13,699
Exchange adjustments	(27,255)	(41,250)	(989)	(69,494)
Total other changes	(13,556)	(1,613,215)	(989)	(1,627,760)
At 31 December 2019	10,960,108	3,972,379	44,229	14,976,716
At 1 January 2020	**10,960,108**	**3,972,379**	**44,229**	**14,976,716**
Cash flows, net	**2,648,110**	**(2,281,311)**	**–**	**366,799**
Other changes:				
Non-cash repayment of loan from a related company *(Notes 25(e)(i) and 25(e)(iii))*	**–**	**(1,077,964)**	**–**	**(1,077,964)**
Non-cash drawdown of loan from a related company *(Note 25(e)(ii))*	**–**	**47,311**	**–**	**47,311**
Distribution in specie *(Note 25(d))*	**(1,847,000)**	**(66,037)**	**–**	**(1,913,037)**
Exchange adjustments	**114,032**	**100,957**	**2,846**	**217,835**
Total other changes	**(1,732,968)**	**(995,733)**	**2,846**	**(2,725,855)**
At 31 December 2020	**11,875,250**	**695,335**	**47,075**	**12,617,660**

25 Notes to consolidated cash flow statement (Continued)

(c) Acquisition of subsidiaries

	2020 $'000	2019 $'000
Fair value of assets and liabilities of subsidiaries acquired		
Property, plant and equipment	–	11,058
Deferred tax assets	–	75
Trade and other receivables	**88,123**	84,150
Cash and cash equivalents	**6,650**	18,244
Trade and other payables	**(44,333)**	(33,390)
Tax payable	–	(933)
Bank loans	–	(13,699)
Net assets acquired	**50,440**	65,505
Less: Non-controlling interest	–	(28,214)
Less: interest in an associated company	–	(32,077)
Total consideration on acquisition of subsidiaries	**50,440**	5,214
Less: cash and cash equivalents acquired	**(6,650)**	(18,244)
Net cash outflow/(inflow)	**43,790**	(13,030)

On 17 January 2020, the Group has acquired 100% of the equity interests in 深圳市瀚宇置業有限公司 at a consideration of $50,440,000 from an independent third party. The assets held by the subsidiary comprise of a right for a land development project in Shenzhen, Mainland China. The completion of such acquisition took place on 15 June 2020.

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

25 Notes to consolidated cash flow statement (Continued)

(d) Distribution in specie

	2020 $'000
Carrying amount of assets and liabilities of PAH distributed	
Property, plant and equipment	193,808
Interests in property development	12,360,146
Interest in joint ventures	2,679,237
Other financial assets	462,689
Inventories	125,553
Trade and other receivables	46,197
Amount due from a joint venture	242,312
Cash and bank balances	97,965
Trade and other payables	(75,206)
Bank loans	(1,847,000)
Current taxation	(50,813)
Loan from a related company	(66,037)
Deferred tax liabilities	(46,106)
Net assets distributed	14,122,745
Cash and cash equivalents distributed	(97,965)
	14,024,780

On 19 August 2020, the Board of Directors declared a special dividend that was satisfied by way of distribution in specie of shares of PAH held by the Group to the shareholders of the Company. The transaction was completed on 30 October 2020. Details of the distribution in specie are disclosed in note 9(a).

25 Notes to consolidated cash flow statement (Continued)

(e) Non-cash transactions

(i) During 2020, the Group has repaid loan from a related company by transferring the interest income received and repayment of a loan to an associated company amounting to $116,119,000 (2019: $115,984,000), interest income received from a joint venture amounting to $20,750,000 (2019: $3,209,000) and distributions from interests in property development (note 14) of $780,000,000 (2019: $1,700,000,000).

(ii) During 2020, the Group through a related company has provided loan to and amounts due from joint ventures of Nil (2019: $198,416,000) and $24,984,000 (2019: $4,158,000) respectively and repaid amount due to a joint venture of $22,327,000 (2019: $44,654,000).

(iii) On 22 June 2018, a wholly owned subsidiary of the Group had entered into an agreement with Polytec Holdings for the proposed acquisition of certain equity interest of a wholly owned subsidiary of Polytec Holdings ("target company") together with the assignment of loan from Polytec Holdings for a consideration of $644,378,000. The asset held by the subsidiary comprised of a development project located in Zhuhai, Mainland China.

The proposed acquisition was terminated in January 2020 as disclosed in note 19 and the deposit of $161,095,000 was refunded to the Group through a related company.

(iv) During 2019, the Group through a related company has repaid the amount due to Polytec Holdings of $3,390,206,000.

26 Capital commitments

Capital commitments outstanding at 31 December contracted but not provided for in the financial statements amounted to $21,955,000 (2019: $25,203,000).

27 Contingent liabilities

As at 31 December 2020, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of $26,373,000 (2019: $54,654,000).

28 Pledge of assets

At 31 December 2020, properties having a value of approximately $13,690,413,000 (2019: $15,168,213,000) and deposits of $13,692,000 (2019: $15,000,000) were pledged to banks and insurance companies mainly to secure general banking facilities granted to the Group.

29 Subsidiaries

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows:

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Best Award Investments Limited	British Virgin Islands	US$1	100.0%	–	Property investment and investment holding
Best Power (Asia) Limited	Hong Kong	$2	–	100.0%	Property development
China Total Limited	Hong Kong	$1	100.0%	–	Property development and investment
Cinema City (Film Production) Company Limited	Hong Kong	$5,000,000	–	85.0%	Cinematograph film distribution
Cinema City Company Limited	Hong Kong	$1,000,000	–	85.0%	Cinematograph film distribution
Colour Luck Limited	Hong Kong	$1	100.0%	–	Property investment
Country House Property Management Limited	Hong Kong	$10,000	–	100.0%	Provision of property management, security, technical and house keeping services
Easy Favour Limited	Hong Kong	$1	–	100.0%	Property investment
Easy Living Consultant Limited	Hong Kong	$1,000,000	–	56.9%	Provision of building surveying, property management and guarding services
Elegant Florist Limited	British Virgin Islands	US$1,000	100.0%	–	Investment holding
Eversound Investments Limited	Hong Kong	$1,000,000	–	100.0%	Property development and investment
Excel Billion Holdings Limited	Hong Kong	$1	–	100.0%	Property development and investment holding

29 Subsidiaries (Continued)

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows: (Continued)

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Find Jade Limited	British Virgin Islands	US$1	100.0%	–	Financial investments
Fullco Development Limited	Hong Kong	$1	–	100.0%	Property development and investment
Fund Wealth Limited	Hong Kong	$1	–	100.0%	Retail
Gold Ease Holdings Limited	Hong Kong	$1	–	100.0%	Property investment
Golden Princess Amusement Company Limited	Hong Kong	$100,000	85.0%	–	Distribution of films and investment holding
Golden Princess Film Production Limited	Hong Kong	$10,000	–	85.0%	Cinematograph film distribution
Henmell Investment Limited	Hong Kong	$2	–	100.0%	Property development and investment
Jumbo Power Enterprises Limited	Hong Kong	$2	–	100.0%	Property development and investment
Kingbo Investment Limited	Hong Kong	$1	100.0%	–	Property investment
Kowloon Development Engineering Limited	Hong Kong	$2	–	100.0%	Engaging in construction contracts and investment holding
Kowloon Development Finance Limited	Hong Kong	$2,000,000	100.0%	–	Provision of financial services
Kowloon Development Properties Company Limited	Hong Kong	$1	100.0%	–	Project management

29 Subsidiaries (Continued)

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows: (Continued)

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
Li Profit Limited	Hong Kong	$7,000,000	–	100.0%	Property development
Marble King International Limited	British Virgin Islands	US$2	100.0%	–	Investment holding
Mass Ventures International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property investment
New Basic Holdings Limited	British Virgin Islands	US$1	100.0%	–	Investment holding
Polytec Asset Holdings Limited *(Remark 4)* *(Listed in Hong Kong, Stock code: 208)*	Cayman Islands/ Hong Kong and Macau	$443,896,784	–	–	Property development and investment, oil exploration and production, ice manufacturing, provision of cold storage and financial investments
Polytec Property (Wuxi) Limited *(Remark 3)*	Mainland China	$1,202,500,000 *(Remark 1)*	–	100.0%	Property development and investment holding
Polytec Property Good Companion (Shenyang) Limited *(Remark 3)*	Mainland China	US$109,800,000 *(Remark 1)*	–	100.0%	Property development
Spark Team Limited	Hong Kong	$2	100.0%	–	Retail sales and investment holding
Top Sail International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development
Tyleelord Development & Agency Company Limited	Hong Kong	$100,000	–	100.0%	Property investment
Un Chau Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Units Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Wealrise Investments Limited	Hong Kong	$2	–	100.0%	Property investment
Wealth Genesis Limited	Hong Kong	$2	100.0%	–	Property investment

29 Subsidiaries (Continued)

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, are as follows: (Continued)

Subsidiary	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activities
			Direct	Indirect	
中山市長江兆業地產開發有限公司 *(Remark 3)*	Mainland China	$80,000,000 *(Remark 1)*	–	70.0%	Property development
保利達地產（瀋陽）高悦有限公司 *(Remark 3)*	Mainland China	US$59,600,000 *(Remark 1)*	–	100.0%	Property development
上海揚業房地產開發有限公司	Mainland China	RMB250,000,000 *(Remark 1)*	–	100.0%	Property development
上海城昱置業有限公司 *(Remark 3)*	Mainland China	RMB12,000,000 *(Remark 1)*	–	100.0%	Property development
山西保頤置業有限公司	Mainland China	RMB20,000,000 *(Remark 2)*	–	100.0%	Property development

Remarks:

(1) The amount represented the registered capital paid up.
(2) The amount represented the registered capital not yet paid up.
(3) Wholly foreign owned enterprises incorporated in Mainland China.
(4) No longer a subsidiary of the Company after distribution in specie of shares in Polytec Asset Holdings Limited on 30 October 2020.

30 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilised to reduce the Group's ongoing contributions during the year 2020 and 2019. There were no unutilised forfeited contributions at the end of the reporting period of both years. The Group's annual contribution for the year was $437,000 (2019: $546,000).

Contributions to the Mandatory Provident Funds of $20,665,000 (2019: $11,081,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal governments. The Group's subsidiaries contributed funds of $336,000 (2019: $2,470,000), which were calculated on certain percentages of the average employee salary as agreed by the local municipal governments, to the schemes to fund the retirement benefits of the employees.

31 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) As at 31 December 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 (2019: $3,007,000,000).

(b) During the year ended 31 December 2020, the remuneration for key management personnel being short-term employee benefits amounted to $18,689,000 (2019: $22,980,000) as disclosed in notes 6(a) and 6(b). The remuneration of directors and senior management is recommended by the Remuneration Committee to the Board having regard to the performance and responsibilities of individuals and market trends.

(c) In October 2020, the Group entered into a cooperation agreement with a director of the Company for the 60% interest of a property redevelopment project in Hong Kong and the Group has paid $249,514,000 to the director as the initial acquisition cost. Details of the cooperation agreement are disclosed in the Company's announcement dated 23 October 2020.

32 Financial risk management and fair values

The Group is exposed to interest rate, credit, liquidity, currency and other price risks which arise in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the Group.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from related companies. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in interest rates arising from the Group's borrowings.

Interest rate risk is managed by the Group's management with defined policies through regular review to determine the strategy as of funding in floating/fixed rate mix appropriate to its current business profile, and to engage in relevant hedging arrangements at the appropriate time.

At 31 December 2020, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, would have decreased/increased the Group's result attributable to shareholders of the Company and retained profits by approximately $57 million (2019: $77 million).

The sensitivity analysis has been determined based on the exposure to interest rate risk at the end of the reporting period. The analysis is prepared assuming the amount of interest bearing borrowings outstanding at the end of the reporting period was outstanding for the whole year. The analysis has been performed on the same basis for 2019.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2020 and 2019 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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 receivable and loans and advances. Collateral is usually obtained in respect of loans and advances to customers.

Cash at bank and deposits placed with financial institutions are with counterparties with sound credit ratings to minimise credit exposure.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

All of the Group's debt investments measured at amortised cost of $916,503,000 (2019: $161,050,000) at 31 December 2020 represent listed and unlisted debt securities. Management assessed the credit risk of each of the Group's investment in debt securities with reference to the grading by market credit rating agencies, where available, and default probability analysis performed by external agencies. As at the end of the reporting period, no significant increase in credit risk was identified since the initial recognition of each investment, based on changes in credit rating since investments made, and the loss allowance recognised during the period was therefore limited to 12 months ECLs.

The Group estimated credit loss based on respective 12 months default risks rate as at 31 December 2020 for the issuer of each listed debt securities, which are obtained from external agencies and considered that the allowance for ECLs is $13,514,000 (2019: Nil).

32 Financial risk management and fair values (Continued)

(c) Liquidity risk

Cash management of the Company and wholly owned subsidiaries of the Group are substantially centralised at the Group level. The non wholly owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the management of the Group. The Group's policy is to regularly monitor current, expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flows						
	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	Over 5 years $'000	Undated $'000	Total $'000	Carrying amount $'000
At 31 December 2020							
Trade and other payables	**2,011,873**	**77,942**	**–**	**–**	**70,640**	**2,160,455**	**2,160,455**
Bank loans	**5,928,045**	**822,029**	**5,465,745**	**–**	**–**	**12,215,819**	**11,875,250**
Loan from a related company	**–**	**–**	**–**	**–**	**695,335**	**695,335**	**695,335**
Amount due to a joint venture	**477,046**	**–**	**–**	**–**	**–**	**477,046**	**477,046**
Loan from an associated company	**–**	**–**	**–**	**–**	**47,075**	**47,075**	**47,075**
	8,416,964	**899,971**	**5,465,745**	**–**	**813,050**	**15,595,730**	**15,255,161**
At 31 December 2019							
Trade and other payables	1,984,423	75,962	–	–	77,748	2,138,133	2,138,133
Bank loans	1,915,109	8,828,500	786,343	3,062	–	11,533,014	10,960,108
Loan from a related company	–	–	–	–	3,972,379	3,972,379	3,972,379
Amount due to a joint venture	470,542	–	–	–	–	470,542	470,542
Loan from an associated company	–	–	–	–	44,229	44,229	44,229
Other payables	–	–	–	–	17,688	17,688	17,688
	4,370,074	8,904,462	786,343	3,062	4,112,044	18,175,985	17,603,079

The Group is exposed to liquidity risk that arises from guarantees in respect of performance bonds of a subsidiary. The guarantees are callable if the subsidiary is unable to meet its obligations. Further details are set out in to note 27.

32 Financial risk management and fair values (Continued)

(d) Currency risk

The Group owns assets and conducts its business mainly in Hong Kong and Mainland China.

The Group's primary foreign currency exposures arise from its direct property development and investments in Mainland China. The Group is mainly exposed to the effects of fluctuation in Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to Renminbi currency risk is minimised.

The Group conducts its oil exploration and production business primarily in Kazakhstan. Currency exposure arose from sale of crude oil in a currency other than the local currency of the domicile of the Group entity making the sale. The sales were substantially denominated in United States Dollars, whilst the costs were substantially denominated in Kazakhstan Tenge. The Group has ceased its oil exploration and production business through the distribution in specie of shares in PAH on 30 October 2020.

Management considers this risk is insignificant to the Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(e) Other price risk

The Group is also exposed to property price risk through its interests in property development. 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 project at Huizhou in Mainland China (2019: Lotes T+T1 in Macau and Huizhou in Mainland China) includes estimated selling prices of the underlying property which is derived from observable market data, including average market prices of residential properties in Mainland China (2019: 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. At 31 December 2020, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying property at Huizhou (31 December 2019: underlying properties at Lots 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 profits by $48,608,000/$48,607,000 (2019:$184,691,000/ $184,691,000).

The analysis has been determined assuming that the changes in the selling price of the underlying properties had occurred at the end of the reporting period and had been applied to the exposure to property price risk in existence at that date. The analysis has been performed on the same basis as for 2019 and taken into account of the expiration of the land concession as set out in note 2(c).

32 Financial risk management and fair values (Continued)

(f) 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

	2020 $'000	2019 $'000
Assets		
Level 1		
Other financial assets		
– Listed equity securities in Hong Kong	31,772	15,418
Level 2		
Other financial assets		
– Unlisted investment fund *(Remark)*	73,899	–
Level 3		
Interests in property development	1,811,771	14,053,523

Remark: The share of the net asset value of the fund was determined with reference to the fair value of underlying investment portfolio and adjustments or related transaction costs.

During the year there were no significant transfers between instruments in Level 1 and Level 2.

The movement during the year in the balance of Level 3 fair value measurements are set out in note 14 to the financial statements.

33 Company-level statement of financial position

	Note	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Non-current assets					
Investment properties			–		7,266,000
Property, plant and equipment			3,172		4,440
Interest in subsidiaries			12,298,459		16,755,939
Interest in a joint venture			584,079		584,079
Interest in an associated company			462,356		535,204
			13,348,066		25,145,662
Current assets					
Loans to subsidiaries		4,966,847		2,392,553	
Trade and other receivables		6,524		13,989	
Cash and bank balances		108,029		248,912	
		5,081,400		2,655,454	
Current liabilities					
Trade and other payables		128,945		197,787	
Amounts due to subsidiaries		802		172	
Amount due to a joint venture		477,046		470,542	
Loans from subsidiaries		2,066,257		1,374,388	
Current taxation		88,164		75,711	
		2,761,214		2,118,600	
Net current assets			2,320,186		536,854
Total assets less current liabilities			15,668,252		25,682,516
Non-current liabilities					
Loan from a related company		695,335		2,868,015	
Loans from subsidiaries		981,780		1,557,487	
Bank loan		–		4,000,000	
Deferred tax liabilities		458		52,755	
			1,677,573		8,478,257
NET ASSETS			13,990,679		17,204,259

33 Company-level statement of financial position (Continued)

	Note	**2020** $'000	**2020** $'000	2019 $'000	2019 $'000
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**5,354,189**		8,567,769
TOTAL EQUITY	24(a)		**13,990,679**		17,204,259

Approved and authorised for issue by the board of directors on 31 March 2021.

Or Wai Sheun
Director

Lai Ka Fai
Director

34 Parent and ultimate holding company

At 31 December 2020, the Directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and New Explorer Developments Limited, which are both incorporated in the British Virgin Islands. Neither entity produces financial statements available for public use.

35 Comparative changes

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operations set out in note 4 to the financial statements. In addition, the comparative figures in the consolidated income statement have been restated as if the operation discontinued during the current year had been discontinued at the beginning of the prior period.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, "Insurance contracts", which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 16, "Covid-19-related Rent Concessions"	1 June 2020
Amendments to HKFRS 3, "Reference to the Conceptual Framework"	1 January 2022
Amendments to HKAS 16, "Property, Plant and Equipment: Proceeds before Intended Use"	1 January 2022
Amendments to HKAS 37, "Onerous Contracts – Costs of Fulfilling a Contract"	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The Group is in the progress of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

Particulars of Properties

31 December 2020

A. Major Investment Properties

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre 750 Nathan Road Mongkok	Commercial	Long lease	45,891 sq m and 124 Car Parking Spaces	100.0
20th Floor of Argyle Centre Phase 1 688 Nathan Road and 65 Argyle Street Mongkok	Commercial	Medium-term lease	1,465	100.0
2nd to 23rd Floor and the Roof of The Elgin 51 Elgin Street Central	Residential	Long lease	1,327	100.0
The Whole Shop Spaces on Basement Peninsula Centre 67 Mody Road Tsim Sha Tsui	Commercial	Long lease	1,767 sq m and 10 Car Parking Spaces	100.0
32 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre 582-592 Nathan Road Mongkok	Commercial	Medium-term lease	614	100.0

Particulars of Properties

31 December 2020

B. Major Properties Under Development/Held For Sale

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	19,335	196,400	Land premium negotiation in progress	To be determined	100.0
1 Shek Kok Road Tseung Kwan O Sai Kung	Residential	9,635	48,200	Superstructure works in progress	End-2021/ Early-2022	100.0
Mainland China						
The Gardenia (翠堤灣) West of Daba Road Shenhe District Shenyang	Residential and Commercial	1,100,000	2,000,000	Superstructure works for Phase 3A (South Block) in progress	Phase 3A (South Block) 2021/2022	100.0
Le Cove City (江灣城) 6 Hun Nan Er Road Hun Nan Xin District Shenyang	Residential and Commercial	165,303	712,000	Planning and design works for Phase 5 in progress	Phase 5 2023	100.0
Le Cove City (江灣城) Tongyun Road and Gongyun Road Chong An District Wuxi	Residential and Commercial	68,833	365,000	Foundation works for Phase 3 and Phase 4 in progress	Phase 3 and Phase 4 2023-2025	100.0

Particulars of Properties

31 December 2020

C. Major Land Held For Future Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
2B, 2C, 4, 4B, 6 and 6A High Street Sai Ying Pun *(Note 1)*	Residential and Commercial	508	4,267	60.0
Mainland China				
176 Jiefang Siping Road Yangpu District Shanghai	Residential and Commercial	21,427	113,600 *(Note 2)*	100.0
South of Public Security Bureau West of Wenyuan Street East of Sanxian Avenue North of Jie Highway Jiexiu	Residential and Commercial	181,013	463,100	100.0

Note:

1 The redevelopment of this project is under the cooperation agreement with Mr Or Pui Kwan.

2 Including underground gross floor area of approximately 39,035 sq m.

D. Properties Under Development/Held For Sale of Joint Venture

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
The Lake (山語湖) Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Superstructure works for Phase 3 in progress	Phase 3 2022	50.0

Particulars of Properties

31 December 2020

E. Properties Under Development/Held For Sale of Associated Company

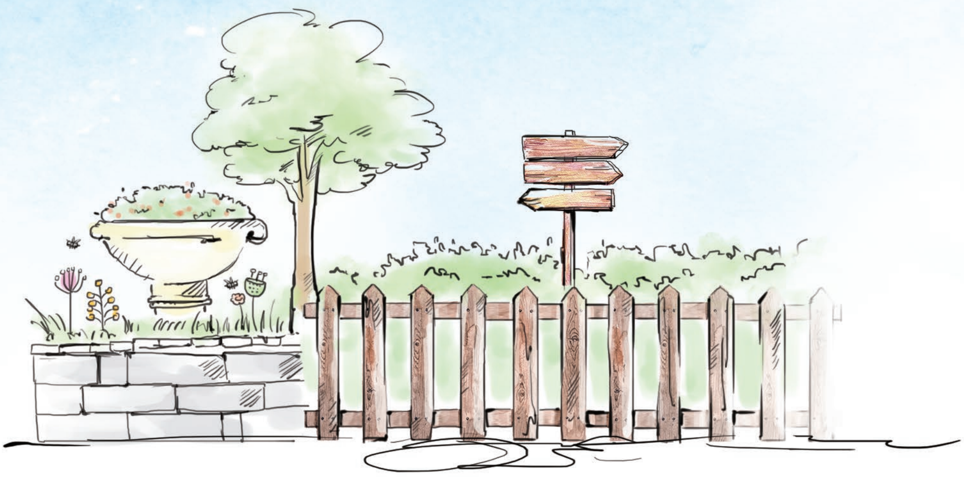
Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
City Plaza (城市廣場) Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin	Residential and Commercial	135,540	850,000 *(Note)*	Foundation works for Phase 3B in progress	Phase 3A 2023; Phase 3B 2025	49.0

Note:
With additional underground gross floor area of approximately 35,000 sq m for the commercial portion.

F. Interests in Property Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
Le Cove Garden (江灣南岸花園) Dongjiang North Shore Wangjiang Lot Huicheng District Huizhou *(Note)*	Residential and Commercial	146,056	519,900	Superstructure works for Phase 2 in progress	Phase 2 2021 ; Phase 3 2023	60.0

Note:
The development of this property is under the co-investment agreement with a related company and its wholly owned subsidiary.



www.kdc.com.hk

MIX
Paper from responsible sources
FSC™ C007445
FSC
www.fsc.org