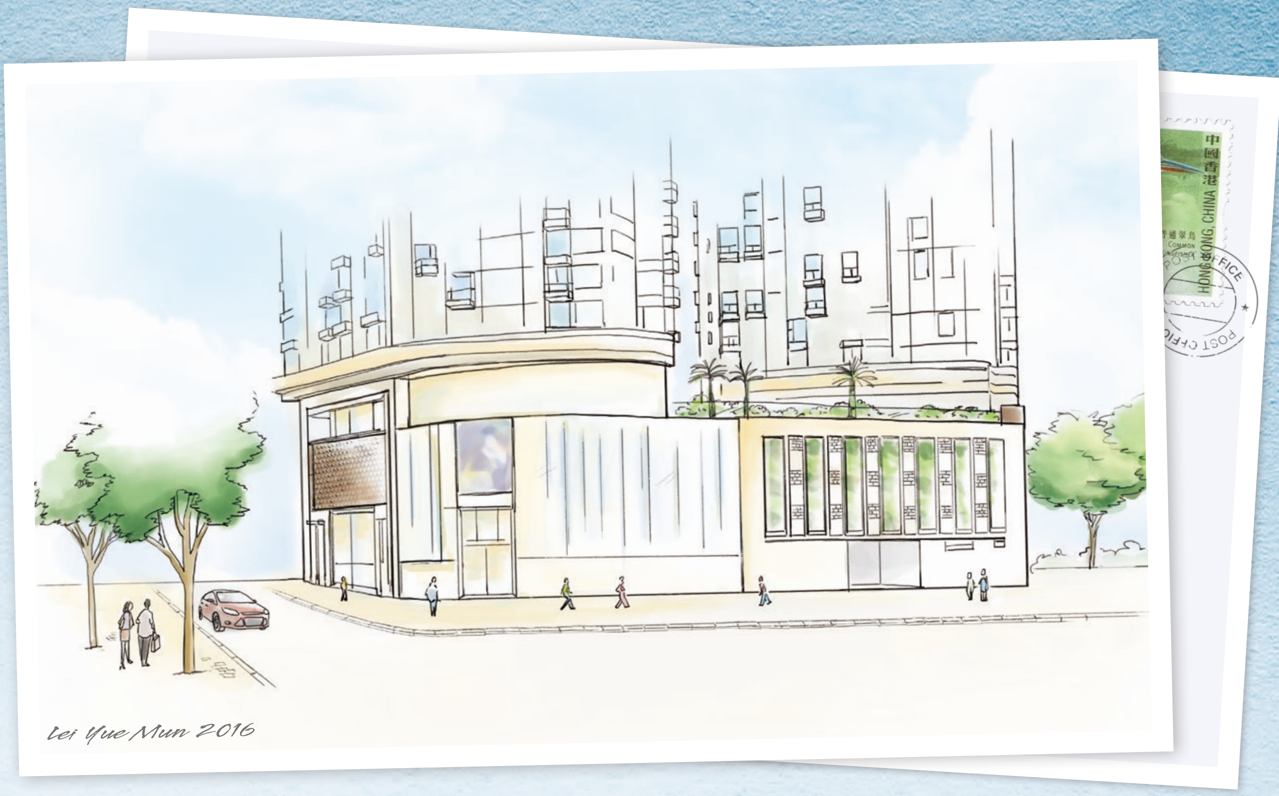

interim report 中期報告 2016

九 龍 建 業 有 限 公 司

KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

Kowloon Development Company Limited

九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has been pursuing a three-tier development strategy in the Greater China region, with its core property business in the Hong Kong and Mainland China markets, and carrying out its Macau property business through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited (Stock Code: 208). The Group is now well positioned in all three markets, with its attributable landbank of approximately 5 million sq m. It is committed to enhance its competitive advantages and to become one of the few listed companies in Hong Kong to have capacity to grow significantly in all three markets.

九龍建業有限公司(股份代號：34)在大中華地區奉行三線發展策略，核心業務為香港及中國大陸市場之地產業務，並通過其擁有73.4%權益之上市附屬公司保利達資產控股有限公司(股份代號：208)經營澳門地產業務。集團目前在區內三大市場作出卓越部署，其應佔土地儲備約五百萬平方米，並致力提升本身之競爭優勢，目標成為少數能夠在三大市場取得顯著增長之香港上市公司之一。

Artist's Impression of Lei Yue Mun Project (Hong Kong)
鯉魚門項目(香港)之電腦構想圖

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South Coast (Hong Kong)

Corporate Information

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

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

Non-executive Directors
Ng Chi Man
Yeung Kwok Kwong

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

Committees

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

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

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

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

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary
Lee Kuen Chiu

Independent Auditor
KPMG
Certified Public Accountants

Authorised Representatives
Lai Ka Fai
Lee Kuen Chiu

Legal Advisers
Sidley Austin

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

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

Stock Code
The Stock Exchange of Hong Kong Limited: 34

Artist's Impression of the second phase development of Le Cove Garden (Huizhou)

CORPORATE AND SHAREHOLDERS' INFORMATION *(CONTINUED)*

Principal Bankers

ANZ Bank
Bank of China
Bank of Communications
China Construction Bank
Chiyu Banking Corporation
Chong Hing Bank
Hang Seng Bank
Nanyang Commercial Bank
Standard Chartered Bank
United Overseas Bank

Financial Calendar for Interim Results 2016

Interim results announcement	24 August 2016
Ex-dividend date for interim dividend	24 November 2016
Closure of register of members	28 November 2016 – 29 November 2016 (both dates inclusive)
Interim dividend payable	13 December 2016

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:
- Upper East
- South Coast
- Pok Fu Lam Road
- Lei Yue Mun
- Clear Water Bay Road

Development Landbank:
262,000 sq m

Property Investment
Flagship investment property:
- Pioneer Centre

Investment Landbank:
53,000 sq m

Property Management
Properties under management:
1,178,000 sq m

MAINLAND CHINA PROPERTY

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

Development Landbank:
4,049,000 sq m

POLYTEC ASSET HOLDINGS LIMITED
Stock Code: 208
73.4%

MACAU PROPERTY

Property Development
Major development projects:
- Pearl Horizon
- Lotes T + T1

Development Landbank:
525,000 sq m

Property Investment
Major investment property:
- The Macau Square

Investment Landbank:
13,000 sq m

ENERGY BUSINESS

Oil
Oil production and exploration in Kazakhstan

OTHERS

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

Highlights

- For the six months ended 30 June 2016, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$291 million compared to HK$476 million for the corresponding period in 2015, a decrease of 38.9%.

- Excluding revaluation from the Group's investment properties, underlying net profit for the first half of 2016 rose to HK$268 million, an increase of 5.9% over the same period in 2015. The underlying net interim earnings per share for 2016 were HK$0.23 compared to HK$0.22 for 2015.

- Interim dividend per share for 2016 amounted to HK$0.21 (2015: HK$0.21).

Upper West (Hong Kong)

Chairman's Statement

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2016, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$291 million compared to HK$476 million for the corresponding period in 2015, a decrease of 38.9%. The interim earnings per share for 2016 amounted to HK$0.25 compared to HK$0.41 for the same period in 2015.

Excluding revaluation from the Group's investment properties, underlying net profit for the first half of 2016 rose to HK$268 million, an increase of 5.9% over the same period in 2015. The underlying net interim earnings per share for 2016 were HK$0.23 compared to HK$0.22 for 2015.

The Board of Directors has declared an interim dividend per share for 2016 of HK$0.21 (2015: HK$0.21). The interim dividend will be payable on Tuesday, 13 December 2016 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 29 November 2016.

BUSINESS REVIEW

In Hong Kong, the recovery in the residential property market appears to be underway, with overall transaction volume having picked up significantly since April 2016, and transacted prices gradually rising from their lows at the beginning of 2016, and likely having bottomed. The rebound in the transaction volume has been particularly evident in the primary residential market mainly attributable to the improving market sentiment due to slower than expected interest hikes, and the introduction of aggressive incentives by property developers to boost their property sales.

In Mainland China, total nationwide residential property sales increased substantially, rising 44% year-on-year in the first six months of 2016 based on the official data. The pickup in housing activity since the start of 2016 was mainly driven by the government's destocking policy. However, the increase in transaction volume and the gain in transacted prices have been largely seen in the first-tier and some of the second-tier cities over the past few months. The sales activities in other third- and fourth-tier cities seemed to be mixed, with some of the regions still having severe destocking pressures.

In Macau, the residential property market seems to be bottoming out, with overall transacted residential prices having stabilised in the first quarter and rising 7.6% quarter-on-quarter in the second quarter of 2016. More encouragingly, residential transaction volume rebounded significantly, rising approximately 40% year-on-year in the first half of 2016.

Development Property Sales

In Hong Kong, the Group obtained the Occupation Permit for Upper West, its 100%-owned project in Tai Kok Tsui, in early February 2016, with total sales proceeds of approximately HK$672 million being recognised for the first six months of 2016. For the period under review, the Group continued to focus on the launch for the remaining residential units of its four projects in Hong Kong Island and Kowloon and its property sales have been benefitted from the recent improving market sentiment.

In Mainland China, in light of the improving sentiment in housing market and rising demand for new homes, the Group launched additional residential units of its various projects for presale/sale in the first half of 2016 and they were well received by the market. Total presales/sales generated from the Group's projects, including the Group's joint venture project in Foshan, a 49%-owned project in Tianjin, and a 60% interest project in Huizhou exceeded RMB3.5 billion for the period under review, with presales/sales attributable to the Group of approximately RMB2.3 billion for the first half of 2016 compared to RMB1.5 billion in the same period of 2015.

BUSINESS REVIEW *(CONTINUED)*

Development Property Sales *(Continued)*

In Macau, the superstructure work of the Lotes T + T1 development project in Macau is progressing smoothly. For the period under review, the Group did not launch any presales/sales in Macau and therefore no sales were recorded for the period ended 30 June 2016.

With respect to the Lote P development project (Pearl Horizon) in Macau, the piling work was completed. However, due to a significant delay in granting various requisite approvals and permits for the project over the past years, the overall construction work could not be completed before the expiry date of the related land concession. An application for an extension of the expiry date for the land concession was made to relevant government departments but it was declined and therefore the construction work was suspended. Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly-owned subsidiary of the ultimate holding company of the Company, has therefore applied to the Courts of Macau to claim for compensation of time. If the applications are ultimately declined, the Macau Government would have a right to resume the land without any compensation to the owner of the land. Nevertheless, based on the opinions provided by the Group's legal counsel, PCL has strong legal grounds to obtain a confirmation from the Court of Macau that the administrative delays had been caused by the relevant government authorities and therefore PCL is entitled to obtain compensation of time to enable it to complete the project. Currently, the Group is still awaiting a hearing date to be fixed by the Courts of Macau for the legal proceedings.

City Plaza (Tianjin)

BUSINESS REVIEW *(CONTINUED)*

Property Development

Further to the completion of the acquisition of Fulleagle Limited, which held an indirect interest in Junk Bay Town Lot No. 2 and the Extension thereto and Tseung Kwan O Town Lot No. 22 (the "Lots"), by the Company on 21 January 2016, the Group is actively negotiating with the Lands Department about the land premium for its site in Tseung Kwan O and a land exchange for the proposed new lot to be known as Tseung Kwan O Town Lot No. 121 by surrendering the Lots to the Hong Kong Government.

As of 30 June 2016, the Group's landbank for development amounted to approximately 5 million sq m of attributable gross floor area ("GFA"). The Group's major property projects under planning and development are set out as follows:

Major Property Projects under Planning and Development

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Remaining GFA※ (sq m)	Group's Interest	Status	Expected Date of Completion
Hong Kong								
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	34,100	100%	Basement excavation in progress	2018
South Coast	Aberdeen, Hong Kong	Residential	723	5,900	5,900	100%	Superstructure work in progress	2016
Pok Fu Lam Road	Sai Ying Pun, Hong Kong	Residential & retail	1,388	11,100	11,100	100%	Foundation work in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & commercial	3,240	29,200	29,200	100%	Foundation work completed	2019
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	196,400	100%	Land premium negotiation in progress	To be determined

Note: The property project in Hong Kong, namely Upper West, was completed during the period under review.

BUSINESS REVIEW *(CONTINUED)*

Property Development *(Continued)*

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

Property Project	District/City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Remaining GFA※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
City Plaza (Tianjin) 城市廣場（天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	839,800*	49%	Construction work for the second phase in progress	Second phase 2017
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	530,300	100%	Construction work for the fourth phase in progress	Fourth phase 2018
The Gardenia (Shenyang) 翠堤灣（瀋陽）	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	1,851,700	100%	Construction work for the second phase in progress	Second phase IIB 2016/2017
Le Cove City (Wuxi) 江灣城（無錫）	Chong An District, Wuxi	Residential & commercial	68,833	404,400	356,500	80%	Construction work for the second phase in progress	Second phase 2017
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	437,900	60%	Foundation work for the second phase in progress	Second phase 2017/2018
The Lake (Foshan) 山語湖（佛山）	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	1,093,200	50%	Construction work for the third phase of high rise residential towers in progress	Third phase of high rise residential towers 2016
Macau								
Pearl Horizon	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	697,600	58.8%	Suspended	To be determined
Lotes T + T1	Lotes T + T1, Novos Aterros da Areia Preta	Residential & commercial	17,900	195,600	195,600	58.8%	Superstructure work in progress	Mid-2017

※ Refers to approx. total GFA less GFA sold and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.

BUSINESS REVIEW *(CONTINUED)*

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2016 fell to HK$169 million, a decrease of 4.5% over the corresponding period in 2015. Gross rental income generated from Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, dropped 5.3% to HK$144 million. The overall occupancy rate for the property investment portfolio was over 90% as of 30 June 2016.

Other Businesses through Polytec Asset Holdings Limited ("Polytec Asset")

The Group's exposures to the property investment in Macau, the oil business and the ice manufacturing and cold storage business are through its 73.4%-owned listed subsidiary, Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau

For the period under review, the Group's share of gross rental income generated from its investment properties rose to HK$28.9 million, an increase of 26.4% over the same period in 2015. The improvement in income was mainly due to an increase in rents from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group rising to HK$26.8 million for the first half of 2016 compared to HK$21.3 million for the corresponding period in 2015.

Oil

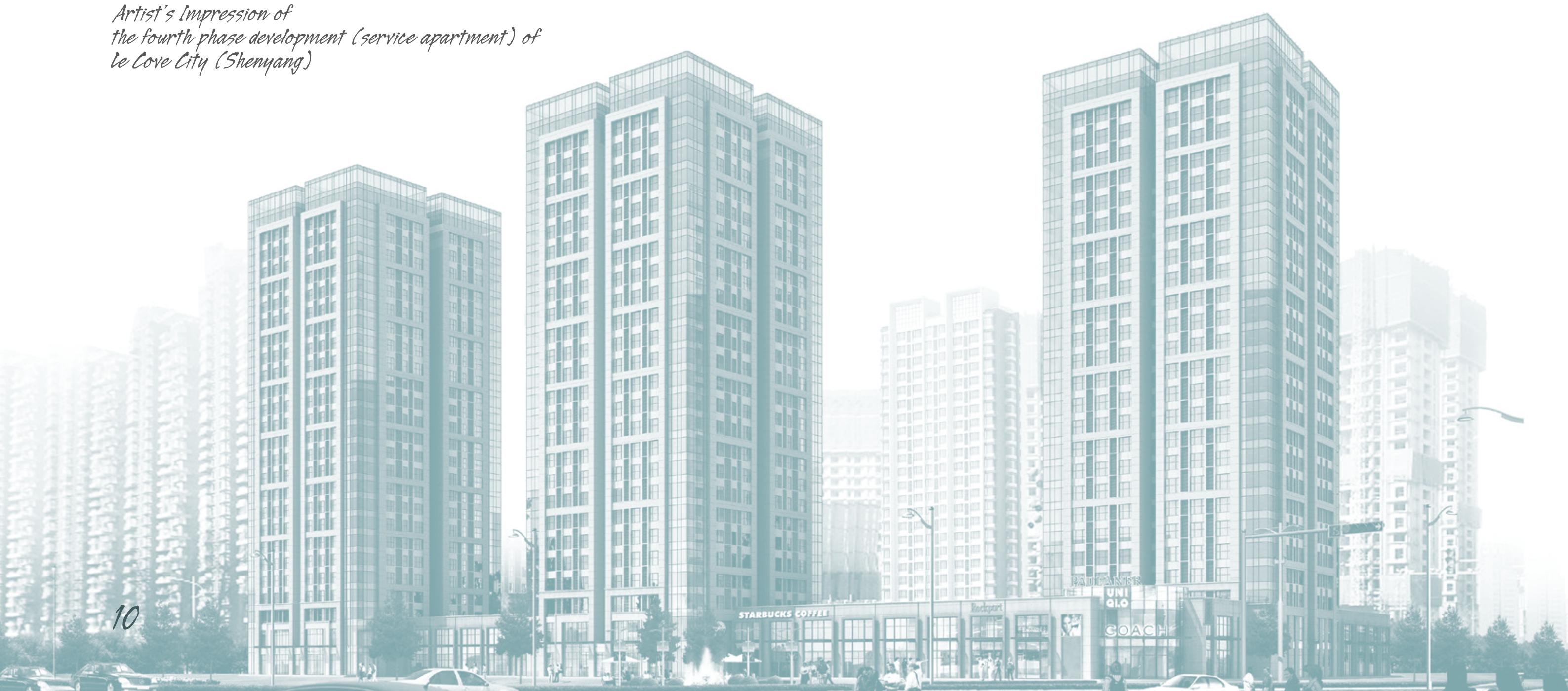
For the six months ended 30 June 2016, the segment recorded a loss of HK$6.9 million. The loss was due to the further decline in crude oil prices in the first quarter, with the Brent crude oil prices having reached a recent low of approximately US$26 per barrel in January 2016. However, such loss was partially offset by the reduction of local expenses arising from the significant depreciation of the Tenge, the Kazakhstan currency, which was allowed to float freely on 20 August 2015.

The Group will continue to work out a solution to tackle the gas flaring issue of the oilfield in Kazakhstan before the permits expire on 31 December 2016. Various viable options are currently being evaluated.

Ice Manufacturing and Cold Storage

During the period under review, total operating profit for the combined cold storage and ice manufacturing segment rose to HK$14.8 million, an increase of 32.2% over the same period in 2015. The increase in operating profit was attributable to an improvement in the ice manufacturing sector.

Artist's Impression of the fourth phase development (service apartment) of le Cove City (Shenyang)



PROSPECTS

In Hong Kong, with the pace of rate hikes in the US relatively slow and interest rates being expected to stay low for an extended period of time, the recovery in the primary, as well as the secondary, residential property markets in Hong Kong will likely be supported. However, despite the pickup in sales activity in overall residential market, any increase in prices will likely be mild as they are expected to be suppressed by a seemingly substantial increase in supply of the residential units in the coming few years. In view of improving market sentiment, the Group will continue to promote the sale for the remaining units of its four development projects in Hong Kong in the rest of 2016 and will launch its new high-end residential project in Pok Fu Lam Road in early next year.

In Mainland China, in view of recent rapidly rising transacted housing prices in the first-tier and some of the second-tier cities, the government is expected to tighten its housing credit policies to prevent the risks of a potential bubble in the property market emerging. Nevertheless, with prevailing market sentiment still favourable, the Group will continue to expedite the sale of residential units for the second half of 2016, aiming to lock in the future results for the Group. In addition, the Group has been actively exploring investment opportunities in the first-tier cities over the past year, with some of the projects likely to be concluded in the near future.

In Macau, the construction work of the Lotes T + T1 development project is being expedited and the progress is satisfactory, with topping out of the superstructure being expected before end-December 2016. The Group is making every effort to ensure the construction work to be completed and an occupation permit to be obtained by the middle of 2017. With respect to the lawsuit relating the Lote P development project (Pearl Horizon) in Macau, it is expected that a hearing date will be fixed by the Courts of Macau in the near future. The construction work will be resumed subject to and as soon as practicable after a favourable judgement from the Court and the relevant approvals from the government. It will endeavour to complete the project and deliver the flats to the waiting buyers as soon as it possibly can.

Looking ahead, the Group's core income for the second half of 2016 will be mainly generated from its property development projects in Hong Kong and Mainland China. In addition, the Group expects its property investment portfolios in Hong Kong and Macau, as well as its ice manufacturing and cold storage business, will continue to generate stable income in the second half of 2016. If the crude oil prices hover at the current low levels in the rest of the year, the Group's oil business in Kazakhstan will hardly make any contribution to its earnings in the second half of 2016.

The Group is currently facing a tough challenge in Macau. I would like to take this opportunity to express my heartfelt gratitude and appreciation to my fellow directors for their support and all staff for their dedication, hard work and contribution during these critical times.

Or Wai Sheun
Chairman

Hong Kong, 24 August 2016

Financial Review

FINANCIAL RESOURCES AND BANK BORROWINGS

The Group had total bank borrowings of HK$9,829 million as at 30 June 2016 (31 December 2015: HK$8,707 million), with HK$1,438 million being repayable within one year and HK$8,391 million being repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,570 million, the Group's net borrowings position was HK$8,259 million as at 30 June 2016, which represented an increase by HK$728 million compared to 31 December 2015. Total loans from ultimate holding company and a fellow subsidiary recorded a substantial decrease by HK$1,887 million since 31 December 2015 and amounted to HK$4,552 million as at 30 June 2016.

The Group's gearing ratio (calculated on the basis of net bank borrowings and total loans from ultimate holding company and a fellow subsidiary over equity attributable to shareholders of the Company) was slightly decreased to 57.2% as at 30 June 2016 (31 December 2015 : 61.0%).

In January 2016, the Group further expanded its land bank by acquiring of a subsidiary from the ultimate holding company at a total consideration of HK$184 million. The major asset of the acquired subsidiary is a land located in Tseung Kwan O and the Group is now under the process of land exchange application.

During the period under review, the Group continued to launch the sale for the remaining units of the property projects in Hong Kong, which contributed further cash inflows of HK$1,013 million to the Group. Furthermore, the Group has recorded approximately of HK$1,550 million cash inflows mainly from sales/presales of various development projects in Mainland China.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK$900 million for construction costs during the period.

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

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 30 June 2016, the Group did not have any outstanding financial instruments entered into for hedging purposes. Nevertheless, the Group is closely monitoring its overall foreign exchange exposure and interest rate exposure and will adopt a proactive but prudent approach to minimise the relevant exposures when necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflows from presale/sale of the Group's development projects and the financial support from the ultimate holding company, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

CAPITAL COMMITMENTS

As at 30 June 2016, the Group had commitments in connection with the Group's investment properties amounting to HK$30 million.

PLEDGE OF ASSETS

As at 30 June 2016, properties having a value of HK$18,298 million and bank deposits of HK$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

CONTINGENT LIABILITIES

The Group has given several guarantees in respect of banking facilities granted to a joint venture in Mainland China. Guarantees have been provided to a joint venture amounting to HK$1,106 million, representing a 50% proportional guarantee in respect of HK$2,212 million term loan facilities. The facilities were utilised to the extent of HK$1,931 million as at 30 June 2016.

Artist's Impression of
the second phase development (low-rise residential buildings) of
Le Cove Garden (Huizhou)

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June **2016** **$'000** **(unaudited)**	 2015 $'000 (unaudited)
Revenue	3	**2,760,097**	1,759,214
Cost of sales		**(2,194,952)**	(1,092,163)
Other revenue		**9,662**	10,091
Other net income		**596**	–
Depreciation and amortisation		**(8,644)**	(8,969)
Staff costs		**(95,591)**	(95,465)
Selling, marketing and distribution expenses		**(120,036)**	(186,416)
Other operating expenses		**(55,790)**	(38,473)
Fair value changes on investment properties	8	**(10,832)**	301,389
Profit from operations		**284,510**	649,208
Finance costs	4(a)	**(66,105)**	(85,308)
Share of profits of associated companies	4(c)	**45,883**	12,723
Share of profits of joint ventures	4(d)	**70,685**	59,690
Profit before taxation	4	**334,973**	636,313
Income tax	5	**(36,074)**	(145,361)
Profit for the period		**298,899**	490,952
Attributable to:			
Shareholders of the Company		**290,979**	476,046
Non-controlling interests		**7,920**	14,906
Profit for the period		**298,899**	490,952
Earnings per share – Basic/Diluted	6	**$0.25**	$0.41

The notes on pages 20 to 32 form part of the interim financial report.

Consolidated Statement of Comprehensive Income

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2016	2015
	$'000	$'000
	(unaudited)	(unaudited)
Profit for the period	**298,899**	490,952
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**(80,608)**	1,258
Changes in fair value of interests in property development	**(249,270)**	95
Share of other comprehensive income of joint ventures and associated companies	**(116,150)**	1,282
	(446,028)	2,635
Total comprehensive income for the period	**(147,129)**	493,587
Attributable to:		
Shareholders of the Company	**(70,553)**	476,343
Non-controlling interests	**(76,576)**	17,244
Total comprehensive income for the period	**(147,129)**	493,587

The notes on pages 20 to 32 form part of the interim financial report.

Consolidated Statement of Financial Position

(Expressed in Hong Kong dollars)

	Note	At 30 June 2016 $'000 (unaudited)		At 31 December 2015 $'000 (audited)	
Non-current assets					
Investment properties	8		**11,479,506**		11,156,633
Leasehold land held for own use			**199,977**		203,279
Other property, plant and equipment	19		**598,130**		616,389
			12,277,613		11,976,301
Oil exploitation assets	19		**48,504**		49,325
Interests in property development	9		**11,865,601**		12,114,871
Interest in joint ventures			**3,107,891**		3,140,725
Interest in associated companies			**1,891,957**		2,137,106
Loans and advances	11		**1,329,887**		895,742
Deferred tax assets			**113,921**		116,244
			30,635,374		30,430,314
Current assets					
Inventories	10	**14,528,068**		16,273,680	
Trade and other receivables	11	**1,449,584**		1,495,488	
Loans and advances	11	**34,225**		29,760	
Amount due from a joint venture		**64,285**		56,209	
Pledged bank deposit		**15,000**		15,000	
Cash and bank balances		**1,569,872**		1,176,439	
		17,661,034		19,046,576	
Current liabilities					
Trade and other payables	12	**6,424,855**		6,173,325	
Amounts due to non-controlling interests		**200,000**		200,000	
Amount due to a joint venture		**727,179**		741,841	
Bank loans		**1,437,600**		1,796,600	
Current taxation		**132,807**		161,144	
		8,922,441		9,072,910	
Net current assets			**8,738,593**		9,973,666
Total assets less current liabilities			**39,373,967**		40,403,980

(Expressed in Hong Kong dollars)

	Note	At 30 June 2016 $'000 (unaudited)		At 31 December 2015 $'000 (audited)	
Non-current liabilities					
Loan from ultimate holding company	13	**3,298,775**		5,587,640	
Loan from a felllow subsidiary	13	**1,253,142**		851,803	
Bank loans		**8,390,908**		6,910,458	
Other payables		**21,953**		23,342	
Deferred tax liabilities		**887,304**		927,126	
			13,852,082		14,300,369
NET ASSETS			**25,521,885**		26,103,611
Capital and reserves					
Share capital			**8,417,472**		8,417,472
Reserves			**13,980,373**		14,476,678
Total equity attributable to the shareholders of the Company			**22,397,845**		22,894,150
Non-controlling interests			**3,124,040**		3,209,461
TOTAL EQUITY			**25,521,885**		26,103,611

Approved and authorised for issue by the board of directors on 24 August 2016.

The notes on pages 20 to 32 form part of the interim financial report.

Consolidated Statement of Changes in Equity

(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company							
	Share capital $'000	Capital reserve $'000	Fair value reserves $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2015	8,417,472	416	2,259,307	931,471	11,229,907	22,838,573	3,240,614	26,079,187
Changes in equity for the six months ended 30 June 2015								
Profit for the period	–	–	–	–	476,046	476,046	14,906	490,952
Other comprehensive income	–	–	(2,125)	2,422	–	297	2,338	2,635
Total comprehensive income	–	–	(2,125)	2,422	476,046	476,343	17,244	493,587
Dividends approved in respect of the previous year	–	–	–	–	(414,245)	(414,245)	–	(414,245)
Dividends paid/payable to non-controlling interests	–	–	–	–	–	–	(5,895)	(5,895)
At 30 June and 1 July 2015	8,417,472	416	2,257,182	933,893	11,291,708	22,900,671	3,251,963	26,152,634
Changes in equity for the six months ended 31 December 2015								
Profit for the period	–	–	–	–	725,994	725,994	12,514	738,508
Other comprehensive income	–	–	(83,488)	(407,384)	–	(490,872)	(52,658)	(543,530)
Total comprehensive income	–	–	(83,488)	(407,384)	725,994	235,122	(40,144)	194,978
Dividends approved in respect of the current year	–	–	–	–	(241,643)	(241,643)	–	(241,643)
Dividends paid/payable to non-controlling interests	–	–	–	–	–	–	(2,358)	(2,358)
At 31 December 2015	8,417,472	416	2,173,694	526,509	11,776,059	22,894,150	3,209,461	26,103,611
(unaudited) **At 1 January 2016**	**8,417,472**	**416**	**2,173,694**	**526,509**	**11,776,059**	**22,894,150**	**3,209,461**	**26,103,611**
Changes in equity for the six months ended 30 June 2016								
Profit for the period	**–**	**–**	**–**	**–**	**290,979**	**290,979**	**7,920**	**298,899**
Other comprehensive income	**–**	**–**	**(172,785)**	**(188,747)**	**–**	**(361,532)**	**(84,496)**	**(446,028)**
Total comprehensive income	**–**	**–**	**(172,785)**	**(188,747)**	**290,979**	**(70,553)**	**(76,576)**	**(147,129)**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(425,752)**	**(425,752)**	**–**	**(425,752)**
Dividends paid/payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(8,845)**	**(8,845)**
At 30 June 2016	**8,417,472**	**416**	**2,000,909**	**337,762**	**11,641,286**	**22,397,845**	**3,124,040**	**25,521,885**

As at 30 June 2016, loans from non-controlling interests of $2,751,000 (31 December 2015: $2,696,000) are classified as equity being the capital contributions on subsidiaries by the non-controlling interests.

The notes on pages 20 to 32 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2016	2015
	$'000	$'000
	(unaudited)	(unaudited)
Net cash generated from/(used in) operating activities	**1,146,772**	(689,222)
Net cash used in investing activities	**(216,494)**	(4,573)
Net cash used in financing activities	**(534,438)**	(20,267)
Net increase/(decrease) in cash and cash equivalents	**395,840**	(714,062)
Cash and cash equivalents at 1 January	**1,169,006**	1,157,340
Effect of foreign exchange rate changes	**(2,419)**	42
Cash and cash equivalents at 30 June	**1,562,427**	443,320
Analysis of balances of cash and cash equivalents at 30 June		
Cash and bank balances	**1,569,872**	443,320
Less: Bank deposits with maturity more than 3 months	**(7,445)**	–
Cash and cash equivalents	**1,562,427**	443,320

The notes on pages 20 to 32 form part of the interim financial report.

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Changes in accounting policies

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

3 Segment reporting

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

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

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

– Oil segment: oil exploration and production.

– Other businesses segment: mainly includes financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

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

Reportable segment profit represents profit before taxation after excluding fair value changes on investment properties, finance costs, exceptional items and head office and corporate income/expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets.

3 Segment reporting *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's top management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Six months ended 30 June 2016						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	**2,760,097**	**891,809**	**1,560,738**	**–**	**169,388**	**48,366**	**89,796**
Reportable segment profit	**439,138**	**122,786**	**98,100**	**1,790**	**195,149**	**(6,941)**	**28,254**
Other net income	**596**	**–**	**–**	**–**	**596**	**–**	**–**
Fair value changes on investment properties	**(10,832)**	**–**	**–**	**–**	**(10,832)**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**23,760**	**–**	**–**	**–**	**23,760**	**–**	**–**
Head office and corporate expenses	**(51,584)**						
Finance costs	**(66,105)**						
Profit before taxation	**334,973**						
Share of profits of associated companies	**45,883**	**–**	**45,564**	**–**	**–**	**–**	**319**
Share of profits of joint ventures	**70,685**	**–**	**14,887**	**–**	**55,798**	**–**	**–**

	Six months ended 30 June 2015						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Revenue	1,759,214	1,261,101	91,658	–	177,349	132,002	97,104
Reportable segment profit	446,900	247,668	(28,495)	2,317	194,790	8,096	22,524
Fair value changes on investment properties	301,389	–	–	–	301,389	–	–
Share of fair value changes on investment properties of a joint venture	19,360	–	–	–	19,360	–	–
Head office and corporate expenses	(46,028)						
Finance costs	(85,308)						
Profit before taxation	636,313						
Share of profits of associated companies	12,723	–	12,558	–	–	–	165
Share of profits of joint ventures	59,690	–	14,461	–	45,229	–	–

3 Segment reporting *(Continued)*

	At 30 June 2016						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	46,573,131	8,218,309	12,550,316	10,611,738	12,901,711	629,582	1,661,475
Deferred tax assets	113,921						
Pledged bank deposit	15,000						
Cash and bank balances	1,569,872						
Head office and corporate assets	24,484						
Consolidated total assets	48,296,408						
Interest in associated companies	1,891,957	–	1,864,601	–	–	–	27,356
Interest in and amounts due from joint ventures	3,172,176	–	1,751,803	–	1,420,373	–	–

	At 31 December 2015						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	48,142,902	8,849,947	13,976,353	10,901,324	12,558,019	636,411	1,220,848
Deferred tax assets	116,244						
Pledged bank deposit	15,000						
Cash and bank balances	1,176,439						
Head office and corporate assets	26,305						
Consolidated total assets	49,476,890						
Interest in associated companies	2,137,106	–	2,109,334	–	–	–	27,772
Interest in and amounts due from joint ventures	3,196,934	–	1,800,709	–	1,396,225	–	–

4 Profit before taxation

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

(a) Finance costs

	Six months ended 30 June	
	2016	2015
	$'000	$'000
Interest on bank loans and overdrafts	**68,042**	67,334
Interest on loans from ultimate holding company and a fellow subsidiary	**44,695**	57,418
Less: Amount capitalised (Remark)	**(38,246)**	(39,444)
	74,491	85,308
Less: Interest expenses included as other operating expenses	**(8,386)**	–
	66,105	85,308

Remark: Borrowing costs were capitalised at rates of 1.20% – 1.78% (six months ended 30 June 2015: 1.46% – 1.64%) per annum in Hong Kong and 5.50% – 6.65% (six months ended 30 June 2015: 6.00% – 6.77%) per annum in Mainland China.

(b) Other items

	Six months ended 30 June	
	2016	2015
	$'000	$'000
Rentals receivable under operating leases less outgoings	**(157,211)**	(165,682)
Rental income	**(169,388)**	(177,349)
Less: Outgoings	**12,177**	11,667
Depreciation and amortisation (Remark)	**25,188**	50,404
Interest income	**(30,717)**	(14,366)

Remark: Cost of sales includes $16,544,000 (six months ended 30 June 2015: $41,435,000) relating to depreciation and amortisation expenses.

(c) The Group's share of profits of associated companies for the period, after non-controlling interests, dividends and taxation, attributable to shareholders of the Company was $45,148,000 (six months ended 30 June 2015: $12,723,000).

(d) The Group's share of profits of joint ventures for the period, after non-controlling interest, dividends and taxation, attributable to shareholders of the Company was $32,621,000 (six months ended 30 June 2015: $31,585,000).

5 Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2016	2015
	$'000	$'000
Current tax		
Provision for profits tax		
– Hong Kong	**37,171**	65,448
– Outside Hong Kong	**13,329**	2,380
	50,500	67,828
Land appreciation tax ("LAT")	**19,338**	1,068
Deferred tax	**(33,764)**	76,465
	36,074	145,361

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) of the estimated assessable profits for the six months ended 30 June 2016. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $290,979,000 (six months ended 30 June 2015: $476,046,000) and the weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2015: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2016 and 2015.

7 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June 2016 $'000	2015 $'000
Interim dividend declared after the interim period of $0.21 (six months ended 30 June 2015: $0.21) per share	**241,643**	241,643

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

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

	Six months ended 30 June 2016 $'000	2015 $'000
Final dividend in respect of the previous financial year, approved during the interim period, of $0.37 (six months ended 30 June 2015: $0.36) per share	**425,752**	414,245

8 Investment properties

The investment properties of the Group were revalued at 30 June 2016 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 investment properties are valued semi-annually by using the income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period. The Group's investment properties under development are valued semi-annually by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. At 30 June 2016, investment properties under development stated at fair value amounted to $2,911,802,000 (31 December 2015: $2,701,693,000).

A revaluation loss of $10,832,000 (six months ended 30 June 2015: gain of $301,389,000) and deferred tax thereon of $13,639,000 (six months ended 30 June 2015: $84,326,000) were recognised in the consolidated income statement for the six months ended 30 June 2016.

9 Interests in property development

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T + T1 of Novos Aterros da Areia Preta, in Macau and one property located at Huizhou, in Mainland China under the co-investment agreements with the ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings") and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the development projects according to the formulas set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements are disclosed in the Company's Circular dated 23 May 2006 and 30 October 2013. Interests in property development are stated at fair value at the end of the reporting period.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the land use was successfully converted from industrial to residential and commercial in 2006, with a lease term of 25 years ending on 25 December 2015 (the "Expiry Date"). If the project had been completed on or before the Expiry Date, it would have become a definite land concession which is renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but was declined by the relevant department of the Macau SAR Government.

Based on a legal opinion received by the Group, Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly owned subsidiary of the ultimate holding company of the Company, has sufficient grounds to apply to the Courts of the Macau SAR for remedies in all aspects to continue and complete the project. A few legal actions have been initiated by the legal representatives of PCL and are now in progress. Based on the opinion of the legal expert, the Courts will consider and judge on the essential points regarding the delays caused by the Macau SAR Government and the right of PCL to claim for compensation of time in order to allow the completion of the construction work of the Lote P development project and deliver the properties to the respective purchasers. Currently, the Group is still awaiting a hearing date to be fixed by the Courts of the Macau SAR for the legal proceedings.

As the outcome of these court proceedings is still uncertain, management of the Company have taken into account all available evidence, including the opinion of legal experts, in preparing the discounted cash flow model in order to assess the fair value of the project. Management of the Company believe that PCL has strong legal grounds to obtain a favourable judgment so that the Lote P development project can be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgment being obtained and relevant approvals being given by the Macau SAR Government. No impairment for the interests in property development was considered necessary at 30 June 2016.

In respect of the development project at Lotes T + T1, the expiry date of the land concession is 5 July 2017. Based on the current status of the development, management of the Company consider that the Lotes T + T1 project will be completed before the expiry date.

One of the key assumptions for the discounted cash flow model used to measure the fair value of the interest in property development of Lote P is the completion date. As at 30 June 2016, it is estimated that deferring the completion date of the Lote P development project by six months (31 December 2015: six months), with all other variables held constant, would have decreased the fair value reserve of the interests in property development by $569,819,000 (31 December 2015: $660,066,000).

10 Inventories

	At 30 June 2016 $'000	At 31 December 2015 $'000
Land held for future development	**12,915**	12,915
Properties under development	**11,888,763**	13,800,534
Properties held for sale	**2,618,435**	2,451,423
Trading goods and consumables	**7,955**	8,808
	14,528,068	16,273,680

The amount of properties held for future development and under development expected to be recovered after more than one year is $12,915,000 (31 December 2015: $12,915,000) and $8,594,093,000 (31 December 2015: $9,739,770,000) respectively. All of the other inventories are expected to be recovered within one year.

11 Trade and other receivables/Loans and advances

The following is an ageing analysis of trade receivables and loans and advances:

	At 30 June 2016 $'000	At 31 December 2015 $'000
Current	**2,262,352**	1,880,510
Within 3 months	**64,811**	28,368
3 months to 6 months	**246**	1,693
More than 6 months	**14,244**	15,386
Trade receivables and loans and advances	**2,341,653**	1,925,957
Utility and other deposits	**40,136**	36,144
Other receivables and prepayments	**431,907**	458,889
	2,813,696	2,420,990

The Group maintains a defined credit policy. An ageing analysis of trade receivables and loans and advances is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables and loans and advances.

12 Trade and other payables

The following is an ageing analysis of trade payables:

	At 30 June 2016 $'000	At 31 December 2015 $'000
Not yet due or on demand	**1,162,003**	1,173,878
Within 3 months	**44,187**	54,428
3 months to 6 months	**2**	121
More than 6 months	**26,643**	27,295
Trade payables	**1,232,835**	1,255,722
Rental and other deposits	**79,452**	77,179
Other payables and accrued expenses	**908,535**	608,355
Deposits received on sale of properties	**4,204,033**	4,232,069
	6,424,855	6,173,325

13 Loans from ultimate holding company and a fellow subsidiary

Loans from ultimate holding company and a fellow subsidiary are unsecured, interest bearing at Hong Kong Interbank Offer Rate plus a margin per annum and are not expected to be repaid within one year.

14 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

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

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

	At 30 June 2016 $'000	At 31 December 2015 $'000
Assets		
Level 3		
Interests in property development	**11,865,601**	12,114,871

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

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

	At 30 June 2016 $'000	At 31 December 2015 $'000
At 1 January	**12,114,871**	12,227,420
Net loss recognised in other comprehensive income	**(249,270)**	(112,549)
At 30 June/31 December	**11,865,601**	12,114,871

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, the Group 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 the market development and terms provided under the co-investment agreements. Any adverse change in the key assumption could decrease the fair value.

The Group has a team reporting to the top management which performs the valuation of the interests in property development required for financing 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 model include estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau and Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the selling price range from -10% to +10%.

The fair value measurement is positively correlated to adjustments to the selling price of the underlying properties. As at 30 June 2016, it is estimated that an increase/decrease of 5% in the selling price of the underlying properties of the Group's interests in property development classified as non-current assets, with all other variables held constant, would have increased/decreased the Group's fair value reserve by $551,045,000/$551,111,000 (31 December 2015: $538,446,000/$551,509,000).

15 Capital commitments

Capital commitments outstanding at the end of the reporting period contracted but not provided for amounted to $30,190,000 (31 December 2015: $68,016,000).

16 Contingent liabilities

As at 30 June 2016, the Group has provided guarantees of $1,105,688,000 (31 December 2015: $590,847,000) representing a 50% proportional guarantee in respect of an aggregate of $2,211,376,000 (31 December 2015: $1,181,694,000) term loan facilities to a joint venture in Mainland China. The facilities were utilised to the extent of $1,930,566,000 (31 December 2015: $1,181,694,000) at 30 June 2016.

17 Pledge of assets

As at 30 June 2016, properties having a value of approximately $18,297,935,000 (31 December 2015: $15,409,144,000) and bank deposits of $15,000,000 (31 December 2015: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

18 Material related party transactions

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

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

(b) As at 30 June 2016, the Group has given guarantees to an insurance company and financial institutions in respect of performance bonds entered into by an associated company to the extent of $22,277,000 (31 December 2015: $24,884,000).

(c) As at 30 June 2016, loan to a joint venture of $219,500,000 (31 December 2015: $219,500,000) is unsecured, interest bearing at fixed rate with reference to bank lending rate and is not expected to be repaid within one year. As at 30 June 2016, amount due from a joint venture of $64,285,000 (31 December 2015: $56,209,000) and amount due to a joint venture of $727,179,000 (31 December 2015: $741,841,000) are unsecured, interest free and repayable on demand.

(d) As at 30 June 2016, loans to associated companies of $1,698,856,000 (31 December 2015: $1,848,053,000) are unsecured, interest free and are not expected to be repaid within one year, except for an amount of approximately RMB1,444,000,000 (31 December 2015: RMB1,620,000,000) which is interest bearing at a rate determined by the shareholders. During the period, interest income of $35,034,000 (six months ended 30 June 2015: Nil) was recognised in profit or loss. As at 30 June 2016, accumulated accrued interest income of approximately RMB997,000,000 (31 December 2015: RMB932,000,000) due from an associate 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.

(e) On 14 January 2016, the Company had entered into an agreement with Polytec Holdings for the acquisition of 100% equity interest of a wholly owned subsidiary of Polytec Holdiings together with the assignment of loan from a fellow subsidiary for an aggregate consideration of $184,481,000. The assets held by the subsidiary comprised substantially a development project located in Hong Kong.

19 Oil production assets and oil exploitation assets

As at 30 June 2016, the Group had oil production assets of $548,842,000 (31 December 2015: $564,417,000) (included in other property, plant and equipment) and oil exploitation assets of $48,504,000 (31 December 2015: $49,325,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

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

The gas flaring permit to flare associated gas for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group), in Kazakhstan, will expire on 31 December 2016. Caspi Neft TME has been taking all necessary steps to obtain a gas flaring permit valid for a longer period so as to enable it to continue to conduct normal crude oil production after 31 December 2016 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on advice received from its technical experts and external legal advisor and the alternatives under consideration, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2016, the Group reassessed the operation and the risk exposures of its oil exploration and production business as a whole. As the recoverable amounts of the oil production and exploitation assets exceeded their carrying values, no impairment loss is considered necessary for the period ended 30 June 2016. The recoverable amounts of oil production and exploitation assets were determined based on the value in use calculations applying a discount rate of 12.5% (31 December 2015: 12.5%).

Crude oil price assumptions were based on market expectations. At 30 June 2016, it is estimated that an increase/decrease of 20% (31 December 2015: 20%) in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production and exploitation assets by $252,128,000/$303,492,000 (31 December 2015: $281,621,000/$332,135,000). The discount rate used represents the rate to reflect the time value of money and the risks specific to the assets. It is estimated that an increase/decrease of 200 basis points (31 December 2015: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have decreased/increased the carrying amounts of the oil production and exploitation assets by $71,135,000/$80,355,000 (31 December 2015: $62,478,000/$70,144,000).

Independent Review Report of the Auditor

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

Introduction

We have reviewed the interim financial report set out on pages 14 to 32 which comprises the consolidated statement of financial position of Kowloon Development Company Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2016 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting".

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

Hong Kong, 24 August 2016

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2016, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of Code Provisions A.2.1 and A.6.7 as explained below:

Code Provision A.2.1
Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the 2015 Annual Report.

Code Provision A.6.7
All Non-executive Directors and Independent Non-executive Directors attended the Annual General Meeting of the Company held on 28 June 2016 (the "AGM"), other than an Independent Non-executive Director who was unable to attend the AGM as he was overseas at the time.

SECURITIES TRADING POLICY

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

CHANGES IN INFORMATION OF DIRECTORS

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

1. Mr Seto Gin Chung, John, an Independent Non-executive Director of the Company, ceased to act as the vice chairman and has been the chairman of the board of Hop Hing Group Holdings Limited (listed on the Stock Exchange of Hong Kong) with effect from 25 March 2016.

2. Mr Lam Yung Hei has been appointed as an Executive Director and a member of Executive Committee of the Company with effect from 1 July 2016. Mr Lam is the son-in-law of Mr Or Wai Sheun (an Executive Director, the Chairman and a controlling shareholder of the Company) and Ms Ng Chi Man (a Non-executive Director of the Company) and the brother-in-law of Mr Or Pui Kwan (an Executive Director of the Company).

3. The monthly salary of the following Directors has been adjusted with effect from 1 July 2016 and details are set out below:

	1 January 2016 to 30 June 2016	From 1 July 2016
Or Pui Kwan	HK$68,700	HK$70,000
Lai Ka Fai	HK$164,100	HK$171,000
Yeung Kwok Kwong	HK$179,500	HK$186,700

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

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

During the six months ended 30 June 2016, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2016.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2016, the interests of the Directors in the shares of the Company and Polytec Asset Holdings Limited ("Polytec Asset") as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code, are set out below:

1. Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note
Or Wai Sheun	Founder and beneficiary of a trust	830,770,124		2
	Corporate	277,500		3
		831,047,624	72.22%	
Ng Chi Man	Beneficiary of a trust	830,770,124	72.20%	2
Or Pui Kwan	Beneficiary of a trust	830,770,124		2
	Personal	43,500		
		830,813,624	72.20%	
Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	4
Lai Ka Fai	Personal	751,000	0.07%	
David John Shaw	Personal	133,500		
	Family	67,000		5
		200,500	0.02%	
Yeung Kwok Kwong	Personal	180,000	0.02%	

DIRECTORS' INTERESTS AND SHORT POSITIONS *(CONTINUED)*

2. Long positions in the shares of Polytec Asset

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 6)	Note
Or Wai Sheun	Founder and beneficiary of a trust	3,260,004,812	73.44%	7
Ng Chi Man	Beneficiary of a trust	3,260,004,812	73.44%	7
Or Pui Kwan	Beneficiary of a trust Personal	3,260,004,812 7,000,000		7
		3,267,004,812	73.60%	
Yeung Kwok Kwong	Personal	2,000,000	0.05%	
Lai Ka Fai	Personal	430,000	0.01%	

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 30 June 2016.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec Holdings") which is wholly-owned by Ors Holdings Limited ("OHL"). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited.

As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the same block of shares held by the trust.

(3) Such interest in shares is held by China Dragon Limited which is wholly-owned by Mr Or Wai Sheun.

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

(5) Such interest in shares is held by the spouse of Mr David John Shaw.

(6) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 30 June 2016. Polytec Asset is an associated corporation of the Company.

(7) The three references to 3,260,004,812 shares in Polytec Asset relate to the same block of shares held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the deemed interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan are taken to be interested in the shares of Polytec Asset.

DIRECTORS' INTERESTS AND SHORT POSITIONS *(CONTINUED)*

Save as disclosed above, as at 30 June 2016, none of the Directors or the chief executive 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 SHAREHOLDERS' INTERESTS

As at 30 June 2016, shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are set out below:

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 1)	Note
HSBC International Trustee Limited	Trustee	832,016,474	72.30%	2
Ors Holdings Limited	Corporate	830,770,124	72.19%	3

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 30 June 2016.

(2) Based on information available to the Company and subsequent to the recording in the register as required by the SFO set out in the table above, there were share movements which were not required to disclose under the SFO as at 30 June 2016. HSBC International Trustee Limited was then taken to be interested in 831,617,074 shares of the Company. Such interest included the shares owned by a company as described in note (2) under the section headed "Directors' Interests and Short Positions".

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

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any persons (other than the Directors or the chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2016, the Group had a total of 907 employees (31 December 2015: 890 employees), of which 512 were Hong Kong staff, 184 were Mainland China staff and 211 were staff in other regions. The increase in headcount was mainly for matching of business growth. During the period, total staff costs reduced to HK$106 million (30 June 2015: HK$110 million). Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individual 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 external institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 28 November 2016 to Tuesday, 29 November 2016, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm on Friday, 25 November 2016.

CORPORATE CITIZENSHIP

The Company is committed to enhance corporate citizenship and has been a corporate member of WWF-Hong Kong since 2007. We continue to support their conservation and education works.

Besides making charitable donations, we have also taken part in "Earth Hour 2016" held by WWF-Hong Kong.

WWF Gold Member 黃金會員 2016/17 HONG KONG

5 years+ 商界展關懷 caringcompany Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

In addition, the Company was awarded "5 years plus Caring Company" Logo by The Hong Kong Council of Social Service in recognition of our achievement in corporate social responsibility.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed the interim report of the Group for the six months ended 30 June 2016. The Group's independent auditor, KPMG, has conducted a review of the interim financial report in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose review report is contained on page 33 of this interim financial report.

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This interim report is printed on environmental friendly paper
本中期報告由環保紙張印製