九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

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

2018 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- For the six months ended 30 June 2018, the Group's unaudited net profit attributable to shareholders of the Company rose considerably to HK$1,059 million from HK$409 million for the corresponding period in 2017.

- Excluding revaluation gains from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for the first half of 2018 rose to HK$441 million, an increase of 27.5% over the same period in 2017. The underlying net interim earnings per share for 2018 were HK$0.38 compared to HK$0.30 for 2017.

- Interim dividend per share for 2018 amounts to HK$0.22 (2017: HK$0.22). In addition, a special dividend in the form of a distribution in specie of the ordinary shares of Polytec Asset (Stock Code: 208) held by the Group was also declared on the basis of 1 ordinary share of Polytec Asset for every 10 ordinary shares of the Company.

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2018, the Group's unaudited net profit attributable to shareholders of the Company rose considerably to HK$1,059 million from HK$409 million for the corresponding period in 2017. The interim earnings per share for 2018 amounted to HK$0.90 compared to HK$0.36 for the same period in 2017.

Excluding revaluation gains from the Group's investment properties net of tax and fair value gains on its interests in the property development projects, underlying net profit attributable to shareholders of the Company for the first half of 2018 rose to HK$441 million, an increase of 27.5% over the same period in 2017. The underlying net interim earnings per share for 2018 were HK$0.38 compared to HK$0.30 for 2017.

At the meeting of the Board of Directors on 22 August 2018, the Board of Directors has resolved to declare an interim dividend of HK$0.22 per ordinary share each for the six months ended 30 June 2018 (2017: HK$0.22) (the "Interim Dividend"). In addition, the Board of Directors also resolved to declare a special dividend (the "Special Dividend") in the form of a distribution in specie (the "Distribution in Specie") of the ordinary shares of Polytec Asset Holdings Limited ("Polytec Asset") (Stock Code: 208) held by the Group, to the qualifying shareholders in proportion to their respective shareholdings in the Company on the basis of 1 ordinary share of Polytec Asset for every 10 ordinary shares of the Company held by the qualifying shareholders. Subject to overseas legal and regulatory restrictions, if any, it should be noted that it may not be possible or practicable to distribute shares in Polytec Asset to certain overseas shareholders of the Company. Further details of the arrangements for such shareholders will be given in the further announcement(s) to be made by the Company.

The Board is of a view that the declaration of the Special Dividend in the form of the Distribution in Specie gives the shareholders of the Company a bonus, allowing them to directly own the ordinary shares of Polytec Asset. The Board also believes that Polytec Asset has promising prospects and may be able to provide its investors an exceptional return in the years ahead.

The Interim Dividend, together with the Special Dividend in the form of the Distribution in Specie, will be payable to shareholders of the Company on Wednesday, 12 December 2018. Further announcement(s) in relation to the arrangement of the Interim Dividend and the Special Dividend will be made by the Company in due course.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, while the residential transaction volumes rose 5.6% year-on-year in the first half of 2018, the transacted prices reached record highs during the period. In Mainland China, despite tough restrictive measures, including restrictions on prices, purchase, loans and resale on the property markets having continued, residential prices in most cities remained stable or recorded increases in the first half of 2018 while some cities recorded declines in transaction volumes. In Macau, overall property transaction volumes and prices rose in the first half of 2018 but the residential property market started to show signs of slight slowdown in the second quarter of 2018 from the first quarter.

Development Property Sales

In Hong Kong, the Group launched the presale of the 63 Pokfulam development project in the first half of 2018 and it has been well received by the market, with approximately 75% of residential units being sold as of end-June 2018. For the period under review, all remaining residential units at MacPherson Residence and South Coast were sold. Together with the presale proceeds from 63 Pokfulam during the period under review, total presales/sales from its wholly-owned development projects in Hong Kong amounted to approximately HK$2.3 billion.

In Mainland China, total presales/sales of the Group's development projects exceeded RMB1.0 billion for the first half of 2018, with presales/sales attributable to the Group of approximately RMB710 million (approximately HK$840 million).

In Macau, in respect of the La Marina development project, approximately 50% of total residential units were presold or sold as of end-June 2018, with total sale proceeds attributable to the Group of over HK$4 billion. For the period under review, the second batch of net income attributable to the Group of approximately HK$132 million was received. Together with the first batch of net income, total net income attributable to the Group amounted to approximately HK$499 million.

In respect of the Pearl Horizon development project in Macau, the Court of Final Appeal rejected the application by Polytex Corporation Limited ("PCL") for invalidating the decision made by the Chief Executive of Macau to terminate the land concession of the project on 23 May 2018. However, based on the factual information, PCL has grounds to seek compensation from the Macau Government for related losses and damages. Therefore, a claim for related losses and damages against the Macau Government will be made by the legal representative of PCL. In case the above mentioned claim and all other possible approaches failed to protect the Group's interests, Polytec Holdings International Limited ("Polytec Holdings"), the ultimate controlling shareholder of the Company, is committed to indemnifying related losses incurred by the Group for the termination of the Pearl Horizon development project. Therefore, there should not have any adverse effects on the financial position of the Group due to the repossession of the development land by the Macau Government.

Property Development

On 22 June 2018, the Group announced that it intended to acquire two property development projects in Shanghai and on the same date, Polytec Asset also announced that it conditionally agreed to acquire two property development projects in Zhongshan and Zhuhai. Some brief details of each of the proposed acquisitions are set out below:

The Group entered into a sale and purchase agreement with its ultimate controlling shareholder, Polytec Holdings, to acquire a 100% interest each of two property development projects in Shanghai and their related debts for a consideration of approximately HK$2.1 billion. The sites of these two projects are adjacent to each other and therefore they would be developed as one combined site, which covers a total site area of approximately 21,427 sq m with proposed combined gross floor area of approximately 113,646 sq m being designated for residential and commercial uses.

Polytec Asset, the Group's 73.4%-owned subsidiary, entered into two sale and purchase agreements with its ultimate controlling shareholder, Polytec Holdings, pursuant to which it has conditionally agreed to acquire certain interests of the two development projects in Zhongshan and Zhuhai respectively. It intends to acquire 50% equity interest together with 50% sale loan of the company holding property development project in Zhongshan (the "Zhongshan Project"), which covers a site area of approximately 234,802 sq m, for a preliminarily agreed consideration of HK$1.2 billion, which is subject to a maximum adjustment of HK$312 million if the gross floor area ultimately increases with a higher than currently approved plot ratio. Polytec Asset also intends to acquire 60% equity interest together with 60% sale loan of the company holding the property development project in Zhuhai (the "Zhuhai Project"), which covers a total site area of approximately 43,656 sq m, for a total consideration of HK$644 million.

The completion of the above acquisitions is subject to the fulfilment or waiver of certain conditions precedent as set out in the respective sale and purchase agreements as well as the respective independent shareholders' approval at the extraordinary general meetings to be held by the Company and Polytec Asset. Please refer to the announcement made solely by the Company as well as the joint announcement made by the Company and Polytec Asset on 22 June 2018 for the details of the above acquisitions.

As of 30 June 2018, the Group's landbank for development amounted to approximately 3.8 million sq m of attributable GFA. The Group's major property projects under planning and development are set out as follows:

Major Property Projects under Planning and Development

Property Project	**District/ City**	**Usage**	**Approx. Total Site Area (sq m)**	**Approx. Total GFA (sq m)**	**Approx. Total GFA Booked※ (sq m)**	**Group's Interest**	**Status**	**Expected Date of Completion**
Hong Kong								
Upper East	Hung Hom, Kowloon	Residential & commercial	4,038	34,100	-	100%	Fitting-out works in progress	2018
63 Pokfulam	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,200	-	100%	Construction works in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	-	100%	Public car park portion completed and in operations; construction works for main residential blocks in progress	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	-	100%	Foundation works commenced	End-2021/ early 2022
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	-	100%	Land premium negotiation in progress	To be determined

Major Property Projects under Planning and Development (continued)

Property Project	District/ City	Usage	Approx. Total Site Area (sq m)	Approx. Total GFA (sq m)	Approx. Total GFA Booked※ (sq m)	Group's Interest	Status	Expected Date of Completion
Mainland China								
Le Cove City (Shenyang) 江灣城（瀋陽）	Hun Nan Xin District, Shenyang	Residential & commercial	165,303	712,000	289,900	100%	Construction works for Phase 4 in progress	Phase 4 2018
The Gardenia (Shenyang) 翠堤灣（瀋陽）	Shenhe District, Shenyang	Residential & commercial	1,100,000	2,000,000	389,000	100%	Construction works for Phase 3A in progress	Phase 3A 2019
Le Cove Garden (Huizhou) 江灣南岸花園（惠州）△	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	82,500	60%	Construction works for Phase 1B in progress	Phase 1B 2019
The Lake (Foshan) 山語湖（佛山）	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	844,400	50%	Construction works for high-rise residential towers in Phase 4 of development completed	Remaining development to be determined
Le Cove City (Wuxi) 江灣城（無錫）	Chong An District, Wuxi	Residential & commercial	68,833	365,000	105,800	100%	Construction works for Phase 2 completed	Phase 3 and Phase 4 to be determined
City Plaza (Tianjin) 城市廣場（天津）	Hedong District, Tianjin	Residential & commercial	135,540	850,000#	238,900	49%	Construction works for residential flats in Phase 2 of development completed	Phase 3 to be determined

※ Approx. total GFA booked and recognised in the financial statements.
\# With additional underground GFA of approximately 35,000 sq m for the commercial portion.
△ The development of this project is under the co-investment agreement with the ultimate holding company and its wholly-owned subsidiary.

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 2018 amounted to HK$176 million, a slight decline of 1.1% over the corresponding period in 2017. While gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, declined slightly to HK$152 million for the first half of 2018 from HK$154 million for the same period of 2017, overall occupancy rate for offices and retail spaces remained high at over 98% as of end-June 2018.

Other Businesses through 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 Polytec Asset. Their respective operational results are as follows:

Property Investment in Macau

For the period under review, the Group's share of gross rental income generated from its investment properties fell to HK$30.2 million, representing a decrease of 3.5% over the corresponding period of 2017. The decline in rental income was mainly due to a decrease in income from The Macau Square, in which Polytec Asset holds a 50% interest, with total rental income of the property attributable to the Group falling by HK$1.1 million to HK$28.0 million for the first half of 2018 when compared to the corresponding period in 2017.

Oil

The oil segment recorded an operating loss of HK$8.7 million for the six months ended 30 June 2018, compared to a loss of HK$9.5 million over the same period in 2017. The reduced operating loss was mainly due to the rise in oil prices during the period under review when compared to the first half of 2017.

Ice Manufacturing and Cold Storage

For the period under review, the total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$9.6 million, a decrease of 9.4% over the corresponding period in 2017. The decline in operating profit was attributable to the decrease in revenue from ice manufacturing business.

PROSPECTS

Overall sentiment in the respective property markets in Hong Kong, Mainland China and Macau in the first half of 2018 was relatively favourable. However, with growing uncertainty over seemingly intensifying international trade disputes initiated by the US and further interest rate hikes, the business environment in these markets may become increasingly challenging in the remainder of the year. While it has been well positioned in each of the markets it has exposure, the Group will closely monitor the development of trade wars and impacts from further interest rate hikes, as well as any policy changes in order to assess all factors affecting these economies and adjust its investment positioning in these markets accordingly.

In Hong Kong, the Group should gradually deliver the presold units of Upper East to the buyers from September 2018 onwards. In addition, it intends to launch the presale of its development project in Lei Yue Mun when the presale consent is obtained, possibly September or October this year at the earliest. Foundation works for the Group's development project in Tseung Kwan O was just commenced.

In Mainland China, construction works for Phase 1B of Le Cove Garden in Huizhou and Phase 1B of The Gardenia in Shenyang were recently completed and the presold units are scheduled to be delivered to the buyers in the fourth quarter of 2018 or early 2019.

In Macau, the remaining residential units of the recently completed La Marina development project, which is situated in a prime location adjacent to the Hong Kong-Zhuhai-Macau Bridge, have been put on to the market for sale recently and sales are expected to go steadily for the remainder of 2018.

In regard to the oil segment, the Group will continue to assess the sustainability of the recent recovery of oil prices to adjust the business strategy. Both the Group's property investment portfolio in Macau and ice manufacturing and cold storage business in Hong Kong are expected to generate stable income for the second half of 2018.

In June 2018, as announced, the Group intended to acquire two adjacent sites in Shanghai and its 73.4%-owned subsidiary, Polytec Asset, also intended to conditionally acquire two development projects in Zhuhai and Zhongshan respectively. The Group considers all these projects possessing great development potentials due to their respective excellent locations, with Shanghai being the top-tier city, and Zhuhai and Zhongshan being situated within the Central Government's strategic development region, that is Greater Bay Area and to be benefitted greatly from the upcoming opening of the Hong Kong-Zhuhai-Macau Bridge. Going ahead, the Group will continue to actively explore more quality development projects, aiming to increase its capacity and build a solid foundation for its growth sustainability.

Looking forward to the second half of 2018, as the Upper East development project is scheduled to be completed shortly and the presold units will then be delivered to the buyers, its total presale proceeds are expected to be recognised accordingly. Together with sales from various projects in Mainland China to be booked and a further portion of net income to be received from the Group's interests in La Marina in the second half of 2018, barring unforeseen circumstances, the Group's results for the full year of 2018 are expected to be better than that of 2017.

I would like to take this opportunity to express my gratitude to my fellow directors for their valuable advice and to thank all staff for their commitment and hard work.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2018 together with the comparative figures for 2017 are as follows:

Consolidated Income Statement

		Six months ended 30 June	
		2018	2017
	Note	***HK$'000***	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**705,627**	1,556,467
Cost of sales		**(229,434)**	(998,762)
Other revenue		**10,549**	19,632
Other net income		**-**	795
Depreciation and amortisation		**(7,874)**	(8,205)
Staff costs		**(96,598)**	(103,604)
Selling, marketing and distribution expenses		**(46,808)**	(84,089)
Other operating expenses		**(36,933)**	(43,158)
Fair value changes on interests in property development	*9*	**447,354**	-
Fair value changes on investment properties		**291,582**	49,495
Profit from operations		**1,037,465**	388,571
Finance costs	*4*	**(89,527)**	(66,973)
Share of profits of associated companies		**68,556**	68,551
Share of profits of joint ventures		**250,999**	111,980
Profit before taxation		**1,267,493**	502,129
Income tax	*5*	**(34,532)**	(70,395)
Profit for the period		**1,232,961**	431,734
Attributable to:			
Shareholders of the Company		**1,059,462**	408,730
Non-controlling interests		**173,499**	23,004
Profit for the period		**1,232,961**	431,734
Earnings per share – Basic/Diluted	*6*	**HK$0.90**	HK$0.36

Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Profit for the period	**1,232,961**	431,734
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	**(30,173)**	90,722
Changes in fair value of interests in property development	**-**	133,727
Transfer to income statement upon recognition of distribution from interests in property development	**-**	(55,793)
Share of other comprehensive income of joint ventures and associated companies	**(38,799)**	80,362
	(68,972)	249,018
Total comprehensive income for the period	**1,163,989**	680,752
Attributable to:		
Shareholders of the Company	**991,057**	629,390
Non-controlling interests	**172,932**	51,362
Total comprehensive income for the period	**1,163,989**	680,752

Consolidated Statement of Financial Position

	Note		**At 30 June 2018** *HK$'000* *(unaudited)*		At 31 December 2017 *HK$'000* *(audited)*
Non-current assets					
Investment properties			**10,724,060**		10,313,500
Property, plant and equipment	*8*		**529,669**		541,625
Oil exploitation assets	*8*		**27,902**		28,175
Interests in property development	*9*		**13,010,427**		12,399,437
Interest in joint ventures			**3,540,946**		3,338,920
Interest in associated companies			**1,814,613**		1,824,171
Deposit	*10*		**300,028**		–
Loans and advances	*10*		**958,492**		978,265
Deferred tax assets			**122,345**		122,010
			31,028,482		29,546,103
Current assets					
Inventories		**15,638,035**		14,440,005	
Interests in property development	*9*	**1,100,381**		1,264,017	
Trade and other receivables	*10*	**1,777,390**		1,072,018	
Loans and advances	*10*	**27,360**		26,171	
Amounts due from fellow subsidiaries		**180,000**		665,161	
Amount due from a joint venture		**96,684**		88,651	
Pledged bank deposits		**1,082,490**		15,000	
Cash and bank balances		**1,136,853**		1,969,391	
		21,039,193		19,540,414	

	Note	At 30 June 2018 HK$'000 (unaudited)		At 31 December 2017 HK$'000 (audited)	
Current liabilities					
Trade and other payables	*11*	**5,591,938**		4,796,620	
Amount due to a joint venture		**737,161**		743,500	
Loan from an associated company		**46,993**		39,582	
Bank loans		**7,968,800**		7,316,136	
Current taxation		**181,543**		174,087	
		14,526,435		13,069,925	
Net current assets			**6,512,758**		6,470,489
Total assets less current liabilities			**37,541,240**		36,016,592
Non-current liabilities					
Loan from ultimate holding company		**1,099,593**		619,526	
Bank loans		**6,750,011**		6,344,000	
Other payables		**18,474**		18,615	
Deferred tax liabilities		**743,948**		737,483	
			8,612,026		7,719,624
NET ASSETS			**28,929,214**		28,296,968
Capital and reserves					
Share capital			**8,636,490**		8,636,490
Reserves			**16,754,299**		16,269,193
Total equity attributable to the shareholders of the Company			**25,390,789**		24,905,683
Non-controlling interests			**3,538,425**		3,391,285
TOTAL EQUITY			**28,929,214**		28,296,968

Notes

1 Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

The financial information relating to the financial year ended 31 December 2017 that is included in this announcement of interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap.622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 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

(a) Overview

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, "Financial instruments"

(ii) HKFRS 15, "Revenue from contracts with customers"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 Changes in accounting policies *(continued)*

(a) Overview *(continued)*

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated.

(b) HKFRS 9, "Financial instruments"

The adoption of HKFRS 9 has resulted in the following changes in accounting policies for interests in property development:

In prior reporting periods, interests in property development are classified as available-for-sale financial assets and changes in fair value were recognised in other comprehensive income. Upon the adoption of HKFRS 9, interests in property development are classified as investments measured at fair value through profit or loss ("FVPL") and changes in fair value of the investments (including interest) are recognised in profit or loss.

The above changes in accounting policies have been applied retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39, "Financial instruments: recognition and measurement".

The following table summarises the impact of transition to HKFRS 9 on retained profits and fair value reserves at 1 January 2018.

	HK$'000
Retained profits	
Transferred from fair value reserves relating to financial assets now measured at FVPL	2,801,436
Increase in retained profits at 1 January 2018	2,801,436
Fair value reserves	
Transferred to retained profits relating to financial assets now measured at FVPL	(2,801,436)
Decrease in fair value reserves at 1 January 2018	(2,801,436)

2 Changes in accounting policies *(continued)*

(b) HKFRS 9, "Financial instruments" *(continued)*

The following table shows the original measurement category for available-for-sale financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**HKFRS 9 carrying amount at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets carried at FVPL under HKFRS 9			
Interests in property development *(note (i))*	–	13,663,454	13,663,454
Financial assets classified as available-for-sale under HKAS 39			
Interests in property development *(note (i))*	13,663,454	(13,663,454)	–

Note:

(i) Under HKAS 39, interests in property development were classified as available-for-sale financial assets. They are classified as financial assets carried at FVPL under HKFRS 9.

The measurement categories for all financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The application of the expected credit loss model will result in earlier recognition of credit losses, but with no material financial impact to the Group.

2 Changes in accounting policies *(continued)*

(c) HKFRS 15, "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 replaces HKAS 18, "Revenue", which covered revenue arising from sale of goods and rendering of services.

The Group has elected to use the cumulative effect transition method and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018, if any. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

No adjustments to the opening balance of equity at 1 January 2018 have been made on the initial application of HKFRS 15 as the Group did not have contracts that were not completed before 1 January 2018.

Under the requirements of HKFRS 15, revenue from sale of goods and provision of services by the Group will be recognised when the customer obtains control of the promised goods or services in the contract. The Group has assessed that the adoption of HKFRS 15 would have impact on the recognition of revenue relating to the Group's sale of properties, under which the revenue from the sale of properties during the accounting period is recognised in the Group's consolidated income statement on the basis that control over the ownership of the property has been passed to the customer during the current accounting period. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Hong Kong, Mainland China and Macau, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously, the revenue from the sale of properties was recognised upon the later of the execution of a binding sale agreement and when the relevant occupation permit/completion certificate issued by the respective building authority, which was taken to be the point in time when the risks and rewards of ownership of the property have passed to the customer.

The Group currently offers different payment scheme to customers, in relation to which the transaction price and the amount of revenue from the sale of property will be adjusted when significant financing component exists in that contract.

The excess of cumulative revenue recognised in profit or loss over and above the cumulative payments by customers at the end of the reporting period is recognised as contract asset under "Trade and other receivables" in the consolidated statement of financial position. The excess of cumulative payments made by customers over and above the cumulative revenue recognised in profit or loss at the end of the reporting period is recognised as contract liability under "Trade and other payables" in the consolidated statement of financial position.

The adoption of HKFRS 15 has no impact on the Group's consolidated financial statements for the six months ended 30 June 2018, by comparing the amounts reported under HKFRS 15 with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if it had continued to be applied in 2018 instead of HKFRS 15.

3 Segment reporting

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

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

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

- Oil segment: oil exploration and production.

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

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

Reportable segment profit represents profit before taxation by excluding fair value changes on investment properties and interests in property development, 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 2018

		Property development					
	Consolidated	**Hong Kong**	**Mainland China**	**Macau**	**Property investment**	**Oil**	**Others**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue	**705,627**	**27,692**	**185,461**	**180,000**	**175,815**	**36,584**	**100,075**
Reportable segment profit	**660,932**	**(16,165)**	**252,321**	**183,307**	**201,136**	**(8,664)**	**48,997**
Fair value changes on investment properties	**291,582**	**–**	**–**	**–**	**291,582**	**–**	**–**
Fair value changes on interests in property development	**447,354**	**–**	**201**	**447,153**	**–**	**–**	**–**
Share of fair value changes on investment properties of a joint venture	**17,600**	**–**	**–**	**–**	**17,600**	**–**	**–**
Head office and corporate expenses	**(60,448)**						
Finance costs	**(89,527)**						
Profit before taxation	**1,267,493**						
Share of profits of associated companies	**68,556**	**–**	**69,606**	**–**	**–**	**–**	**(1,050)**
Share of profits of joint ventures	**250,999**	**–**	**201,489**	**–**	**49,510**	**–**	**–**

Six months ended 30 June 2017

		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,556,467	506,538	754,001	–	177,962	31,469	86,497
Reportable segment profit	530,547	73,735	230,620	3,122	201,188	(9,515)	31,397
Other net income	795	–	–	–	795	–	–
Fair value changes on investment properties	49,495	–	–	–	49,495	–	–
Share of fair value changes on investment properties of a joint venture	37,840	–	–	–	37,840	–	–
Head office and corporate expenses	(49,575)						
Finance costs	(66,973)						
Profit before taxation	502,129						
Share of profits of associated companies	68,551	–	67,904	–	–	–	647
Share of profits of joint ventures	111,980	–	39,926	–	72,054	–	–

3 Segment reporting *(continued)*

	At 30 June 2018						
		Property development					
	Consolidated	**Hong Kong**	**Mainland China**	**Macau**	**Property investment**	**Oil**	**Others**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Reportable segment assets	**49,592,707**	**9,897,876**	**13,288,562**	**12,543,630**	**12,228,444**	**363,882**	**1,270,313**
Deferred tax assets	**122,345**						
Pledged bank deposits	**1,082,490**						
Cash and bank balances	**1,136,853**						
Head office and corporate assets	**133,280**						
Consolidated total assets	**52,067,675**						
Interest in associated companies	**1,814,613**	**–**	**1,783,247**	**–**	**–**	**–**	**31,366**
Interest in and amounts due from joint ventures	**3,637,630**	**–**	**2,142,484**	**–**	**1,495,146**	**–**	**–**

	At 31 December 2017						
		Property development					
	Consolidated	Hong Kong	Mainland China	Macau	Property investment	Oil	Others
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	46,684,093	8,625,949	12,170,197	12,418,198	11,807,987	366,591	1,295,171
Deferred tax assets	122,010						
Pledged bank deposits	15,000						
Cash and bank balances	1,969,391						
Head office and corporate assets	296,023						
Consolidated total assets	49,086,517						
Interest in associated companies	1,824,171	–	1,791,755	–	–	–	32,416
Interest in and amounts due from joint ventures	3,427,571	–	1,954,226	–	1,473,345	–	–

4 Finance costs

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**151,932**	87,860
Interest on loans from ultimate holding company and a fellow subsidiary	**10,342**	13,257
Less: Amount capitalised	**(72,747)**	(34,144)
	89,527	66,973

5 Income tax

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Current tax		
Provision for profits tax		
– Hong Kong	**21,779**	37,463
– Outside Hong Kong	**1,477**	30,011
	23,256	67,474
Land appreciation tax ("LAT")	**3,190**	2,988
Deferred tax	**8,086**	(67)
	34,532	70,395

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profits for the six months ended 30 June 2018. 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 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 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 HK$1,059,462,000 (six months ended 30 June 2017: HK$408,730,000) and the weighted average number of ordinary shares in issue during the period of 1,176,631,296 (six months ended 30 June 2017: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2018 and 2017.

7 Dividends

(a) Interim dividend by way of cash

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK$0.22 (six months ended 30 June 2017: HK$0.22) per share	**258,859**	258,859

7 Dividends *(continued)*

(b) Special dividend by way of distribution in specie

A special dividend has been declared after the interim period in the form of a distribution in specie on the basis of 1 ordinary share of Polytec Asset Holdings Limited (Stock Code: 208) for every 10 ordinary shares of the Company (six months ended 30 June 2017: Nil).

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

8 Oil production assets and oil exploitation assets

As at 30 June 2018, the Group had oil production assets of HK$303,276,000 (31 December 2017: HK$309,402,000) (included in property, plant and equipment) and oil exploitation assets of HK$27,902,000 (31 December 2017: HK$28,175,000). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

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 2018. 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 2018 and is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the other alternatives. Based on the above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2018, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and estimated that the estimated recoverable amounts of the oil production and exploitation assets exceeded their carrying values. No further impairment loss is considered necessary for the six months ended 30 June 2018. The recoverable amounts of oil production and exploitation assets were determined based on value in use calculations applying a discount rate of 12.5% (31 December 2017: 12.5%).

9 Interests in property development

	2018	2017 *(Remark)*
	HK$'000	*HK$'000*
At 1 January	**13,663,454**	13,388,882
Distributions	**(180,000)**	(555,793)
Changes in fair value recognised in profit or loss/other comprehensive income *(Remark)*	**627,354**	130,365
Net changes in fair value	**447,354**	(425,428)
Additional funding	**-**	700,000
At 30 June/31 December	**14,110,808**	13,663,454
Representing:		
Non-current assets	**13,010,427**	12,399,437
Current assets	**1,100,381**	1,264,017
	14,110,808	13,663,454

Remark: As a result of the adoption of HKFRS 9, fair value changes on interests in property development are recognised in profit or loss (see note 2(b)).

9 Interests in property development *(continued)*

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 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 property development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the property development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements were 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 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 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 the delays caused by the Macau SAR Government in granting the requisite approvals and permits for the development of the project, the project could not commence until August 2014. As a result, the construction work could not be completed by the Expiry Date and all construction work is currently suspended. An application had been made to the Macau SAR Government for an extension of the Expiry Date but it was declined by the relevant department of the Macau SAR Government.

On 23 May 2018, the Tribunal de Ultima Instancia (終審法院) 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. According to the legal opinion obtained by the Group, it is expected that the principal application by PCL to the Tribunal Administrativo (行政法院) of the Macau SAR requesting compensation of time (by way of extension of the concession) for the project will cease to proceed, due to the aforesaid unfavourable judgement of the Tribunal de Ultima Instancia (終審法院) of the Macau SAR.

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

In addition, pursuant to the co-investment agreement for the development of the project, in the event that PCL fails to complete the project under the co-investment agreement, Polytec Holdings will be required to indemnify the Group in respect of any loss suffered. Therefore, any loss to the Group due to the repossession of the land of the project by the Macau SAR Government will be indemnified by Polytec Holdings. Accordingly, no impairment for the interests in the project was considered necessary at 30 June 2018.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained in 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.

9 Interests in property development *(continued)*

During the period, pursuant to the co-investment agreements, distribution of HK$180,000,000 was made by a wholly owned subsidiary of Polytec Holdings, in relation to the property development project at Lotes T+T1 (six months ended 30 June 2017: distribution of HK$55,793,000 was made by Polytec Holdings in relation to the property development project at Huizhou). Income from interests in property development recognised in income statement from the distributions during the period amounted to HK$180,000,000 (six months ended 30 June 2017: HK$55,793,000).

As at 30 June 2018, interests in property development of HK$1,100,381,000 (31 December 2017: HK$1,264,017,000) was expected to be recoverable within one year and was classified as current assets.

10 Trade and other receivables/Deposit/Loans and advances

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

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Current	**1,503,125**	1,651,015
Within 3 months	**16,636**	15,118
3 months to 6 months	**321**	770
More than 6 months	**16,034**	15,221
Trade receivables and loans and advances	**1,536,116**	1,682,124
Utility and other deposits	**1,049,275**	23,463
Prepaid tax	**108,444**	104,224
Other receivables and prepayments	**369,435**	266,643
	3,063,270	2,076,454
Representing:		
Non-current assets	**1,258,520**	978,265
Current assets	**1,804,750**	1,098,189
	3,063,270	2,076,454

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

As at 30 June 2018, included in utility and other deposits were deposits paid to the ultimate holding company of the Company for the proposed acquisitions of certain interests of three wholly owned subsidiaries of the ultimate holding company together with the assignment of loans from the ultimate holding company for an aggregate amount of HK$988,684,000 (31 December 2017: Nil), of which HK$300,028,000 was classified as non-current assets.

11 Trade and other payables

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

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
Not yet due or on demand	**1,273,051**	1,547,182
Within 3 months	**4,689**	3,061
3 months to 6 months	**5**	1
More than 6 months	**3**	3
Trade payables	**1,277,748**	1,550,247
Rental and other deposits	**75,629**	76,467
Other payables and accrued expenses	**764,993**	300,626
Contract liabilities - deposits received on sale of properties	**3,473,568**	2,869,280
	5,591,938	4,796,620

FINANCIAL REVIEW

Financial resources and bank borrowings

Total bank borrowings of the Group amounting to HK$14,719 million as at 30 June 2018 (31 December 2017: HK$13,660 million), comprising of HK$7,969 million repayable within one year and HK$6,750 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,137 million, the Group's net bank borrowings position was HK$13,582 million as at 30 June 2018. Loan from the ultimate holding company amounted to HK$1,100 million as at 30 June 2018.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from the ultimate holding company over equity attributable to shareholders of the Company) was 57.8% as at 30 June 2018 (31 December 2017: 49.4%).

During the period, sales/presales for the property projects in Hong Kong contributed cash inflows of HK$511 million to the Group. Furthermore, the Group has recorded approximately of HK$357 million cash inflows mainly from sales/presales of various development projects in Mainland China.

On 22 June 2018, the Group has entered into agreements with the ultimate holding company for the acquisitions of property development projects located in Shanghai, Zhongshan and Zhuhai in Mainland China. As at 30 June 2018, deposits of totaling HK$989 million had been paid.

During the period, distribution of HK$180 million was made by a wholly owned subsidiary of the ultimate holding company to the Group in relation to the development project at Lotes T+T1.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and incurred a total of approximately HK$1,002 million for construction costs during the period.

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

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

In respect of the Group's oil business in Kazakhstan, the Group is exposed to the exchange fluctuations in the Tenge ("KZT"), the local currency of Kazakhstan, because the majority of operating expenses and capital expenditure are denominated in KZT, while a significant portion of its revenue is denominated in United States dollars. As at 30 June 2018, 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 2018, the Group had commitments in connection with the Group's investment properties amounting to HK$63 million.

Pledge of assets

As at 30 June 2018, properties having a value of approximately HK$21,506 million and bank deposits of HK$1,082 million were pledged to banks under fixed charges mainly to secure banking facilities granted 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$1,121 million, representing a 50% proportional guarantee in respect of HK$2,242 million term loan facilities. The facilities were utilised to the extent of HK$1,067 million as at 30 June 2018.

OTHER INFORMATION

Review of Interim Results

The Audit Committee of the Company has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2018. The Group's independent auditor, KPMG, Certified Public Accountants, has conducted a review of the interim financial report in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2018, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of Code Provision A.2.1 as explained below:

Code Provision A.2.1

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the Annual Report 2017.

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 2018.

Publication of Interim Report

The Interim Report 2018 containing all the information as required by the Listing Rules will be published on the Company's website at www.kdc.com.hk and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders on or about 27 September 2018.

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

Hong Kong, 22 August 2018

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