九龍建業有限公司

KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

2017

interim report

中期報告

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 amounting to approximately 4.5 million sq m. It is committed to enhancing 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)一直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，其應佔土地儲備約為4,500,000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 63 Pokfulam (Hong Kong)
63 Pokfulam (香港) 之電腦構想圖

Contents

Artist's Impression of 63 Pokfulam (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 Adviser

Sidley Austin

Share Registrar

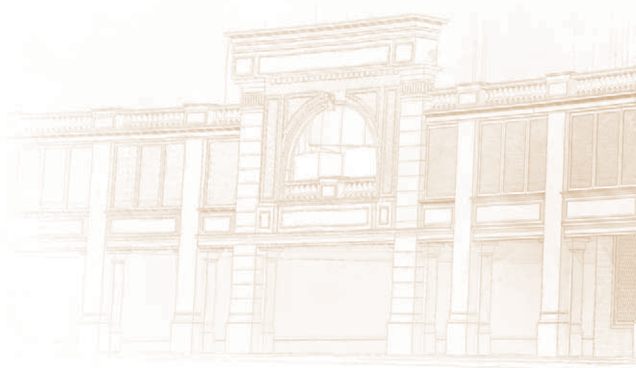
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Registered Office

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

Stock Code

The Stock Exchange of Hong Kong Limited: 34



Artist's Impression of La Marina (Macau)

CORPORATE AND SHAREHOLDERS' INFORMATION *(CONTINUED)*

Principal Bankers

ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
Chiyu Banking Corporation
Chong Hing Bank
Hang Seng Bank
Industrial and Commercial Bank of China
Nanyang Commercial Bank
Standard Chartered Bank
United Overseas Bank

Financial Calendar for Interim Results 2017

Interim results announcement	23 August 2017
Ex-dividend date for interim dividend	23 November 2017
Closure of register of members	27 November 2017 – 28 November 2017 (both dates inclusive)
Interim dividend payable	13 December 2017

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
- 63 Pokfulam
- Lei Yue Mun
- Tseung Kwan O
- Clear Water Bay Road

Development Landbank:
304,000 sq m

Property Investment

Flagship investment property:

- Pioneer Centre

Investment Landbank:
53,000 sq m

Property Management

Properties under management:
1,185,000 sq m

MAINLAND CHINA PROPERTY

Property Development

Major development projects:

- Le Cove City (Shenyang) 江灣城（瀋陽）
- The Gardenia (Shenyang) 翠堤灣（瀋陽）
- Le Cove Garden (Huizhou) 江灣南岸花園（惠州）[#]
- The Lake (Foshan) 山語湖（佛山）
- Le Cove City (Wuxi) 江灣城（無錫）
- City Plaza (Tianjin) 城市廣場（天津）

Development Landbank:
3,604,000 sq m

POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
73.4%

MACAU PROPERTY

Property Development

Major development projects:

- Pearl Horizon[#]
- La Marina[#]

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

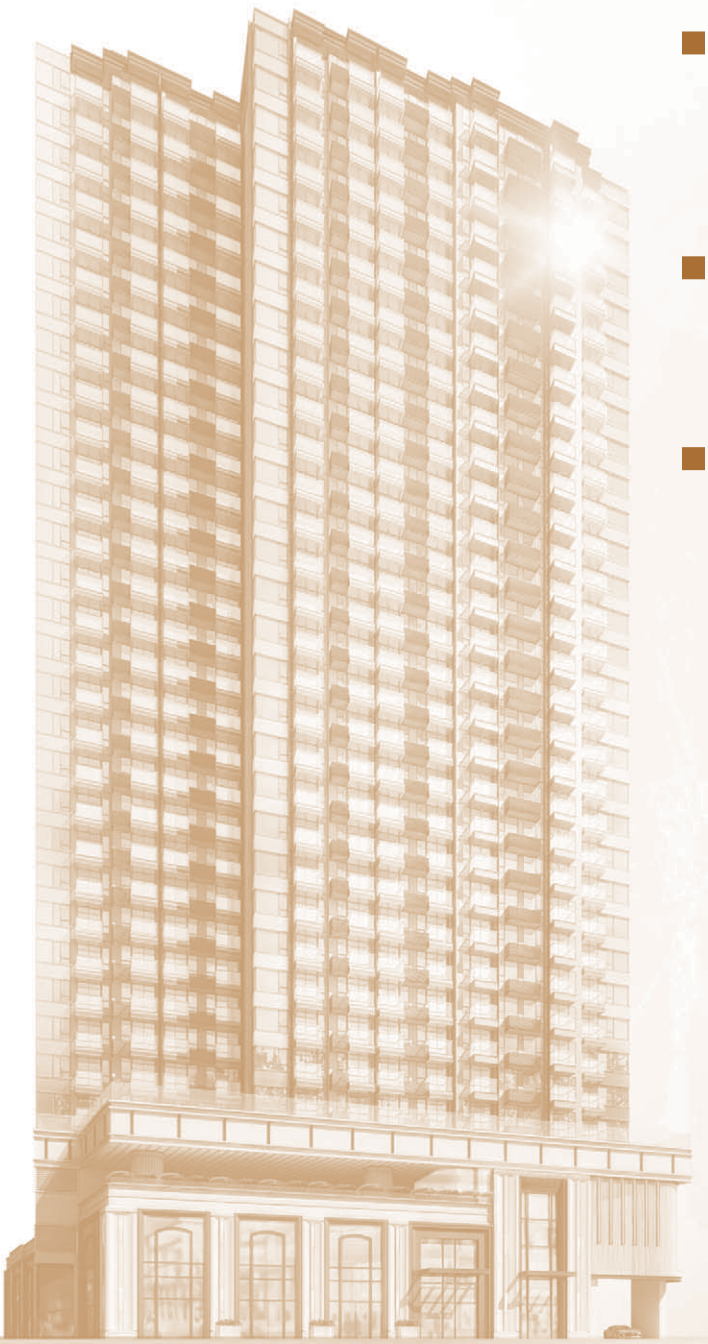
OTHERS

Ice & Cold Storage

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

[#] The development of these projects is under the co-investment agreements with the ultimate holding company and its wholly-owned subsidiaries.

Highlights



- For the six months ended 30 June 2017, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$409 million compared to HK$291 million for the corresponding period in 2016, an increase of 40.5%.
- Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2017 rose to HK$346 million, an increase of 29.1% over the same period in 2016. The underlying net interim earnings per share for 2017 were HK$0.30 compared to HK$0.23 for 2016.
- All formalities of the land exchange for the Tseung Kwan O project (Hong Kong) were completed in April 2017, adding approximately 48,200 sq m gross floor area to the Group's readily developable residential landbank.
- Interim dividend per share for 2017 amounts to HK$0.22 (2016: HK$0.21).

Artist's Impression of Upper East (Hong Kong)

Chairman's Statement

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2017, the Group's unaudited net profit attributable to shareholders of the Company amounted to HK$409 million compared to HK$291 million for the corresponding period in 2016, an increase of 40.5%. The interim earnings per share for 2017 amounted to HK$0.36 compared to HK$0.25 for the same period in 2016.

Excluding revaluation gains from the Group's investment properties, underlying net profit for the first half of 2017 rose to HK$346 million, an increase of 29.1% over the same period in 2016. The underlying net interim earnings per share for 2017 were HK$0.30 compared to HK$0.23 for 2016.

The Board of Directors has declared an interim dividend per share for 2017 of HK$0.22 (2016: HK$0.21). The interim dividend will be payable on Wednesday, 13 December 2017 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 28 November 2017.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, while the government imposed further cooling measures on the property market to prevent it from overheating, transacted prices have far exceeded market expectations at recent government land auctions. Together with prevailing low interest rates, buyers' expectation of further property price increases has been boosted considerably. As a result, both transaction volumes and transacted prices in the primary residential market rose in the first half of 2017 compared to the same period in 2016, with transacted prices for both residential and office hitting new record highs.

In Mainland China, as a result of the imposition of further restrictive measures on the property markets in the first- and second-tier cities by the government, the rate of increase in transacted residential prices slowed in these cities in the first half of 2017. However, those third- and fourth-tier cities with mild home-buying restrictions recorded increases, in different degrees in the transacted residential prices as well as transaction volumes.

In Macau, overall sentiment and sales activity in both commercial and residential property markets continued to improve, with particularly the residential transaction volumes and transacted prices recording considerable increases in the first half of 2017. However, the Monetary Authority of Macau tightened mortgage lending in May 2017 to prevent the property market from overheating, with guidelines issued to banks on a reduction of the mortgage coverage ratios for purchasers. As a result, residential transaction volumes fell substantially in June 2017 from the levels in the previous month. In addition, lawmakers have recently passed certain amendments to the Rental Bill, which will likely reduce property investors' appetite.

Development Property Sales

In Hong Kong, the Group did not launch any new development projects for sale/presale for the period under review and continued to promote the sale of a small number of remaining residential units of its existing development projects in Hong Kong Island and Kowloon. For the period under review, the Group's presales/sales from its development projects in Hong Kong exceeded HK$600 million.

In Mainland China, total presales/sales of the Group's projects exceeded RMB2.9 billion for the first half of 2017, with presales/sales attributable to the Group of approximately RMB1.8 billion (approximately HK$2.1 billion).

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

Development Property Sales *(Continued)*

In Macau, in respect of the La Marina development project (Lotes T + T1), with continuing efforts in expediting construction, all works were completed and the occupation permit was obtained on 3 July 2017. Refinement works for the project have been carried out and are currently making good progress. 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 2017.

With respect to the Pearl Horizon development project (Lote P) in Macau, 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 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 its owner. Nevertheless, based on the opinions provided by the Group's legal counsel, it is believed that PCL has strong legal grounds to obtain confirmation from the Courts 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)

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

Property Development

In Hong Kong, all formalities of the land exchange for Tseung Kwan O Town Lot No. 121 located in Area 85, Tseung Kwan O, Sai Kung, New Territories were completed on 18 April 2017 and the site is now wholly-owned by the Group, adding approximately 48,200 sq m gross floor area ("GFA") to its readily developable residential landbank.

As of 30 June 2017, the Group's landbank for development amounted to approximately 4.5 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%	Superstructure work in progress	2018
63 Pokfulam	Sai Ying Pun, Hong Kong	Residential & retail	1,388	12,200	–	100%	Foundation work in progress	2020
Lei Yue Mun	Lei Yue Mun, Kowloon	Residential & retail	3,240	29,200	–	100%	Superstructure work in progress	2019
Tseung Kwan O	Sai Kung, New Territories	Residential	9,635	48,200	–	100%	Design stage	2022
Clear Water Bay Road	Ngau Chi Wan, Kowloon	Residential & commercial	19,335	196,400	–	100%	Land premium negotiation in progress	To be determined

MARKET OVERVIEW AND 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. 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	285,300	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	366,500	100%	Construction work for the first phase B in progress	First phase B second half 2017
Le Cove Garden (Huizhou) 江灣南岸花園(惠州)△	Huicheng District, Huizhou	Residential & commercial	146,056	519,900	82,300	60%	Construction work for the second phase in progress	Second phase 2018
The Lake (Foshan) 山語湖(佛山)	Nanhai District, Foshan	Residential & commercial	4,020,743	1,600,000	697,900	50%	Construction work for the fourth phase of high-rise residential towers in progress	Fourth phase of high-rise residential towers second half 2017
Le Cove City (Wuxi) 江灣城(無錫)	Chong An District, Wuxi	Residential & commercial	68,833	404,400	64,400	80%⊕	Construction work for the second phase in progress	Second phase second half 2017
City Plaza (Tianjin) 城市廣場(天津)	Hedong District, Tianjin	Residential & commercial	135,540	850,000*	35,800	49%	Construction work for the second phase of residential flats completed	Third phase to be determined
Macau								
Pearl Horizon△	Lote P, Novos Aterros da Areia Preta	Residential & commercial	68,000	697,600	–	58.8%	Suspended	To be determined
La Marina△	Lotes T + T1, Novos Aterros da Areia Preta	Residential & retail	17,900	195,600	–	58.8%	Occupation Permit obtained#	Completed

※ Approx. total GFA booked and recognised in the financial statements.
* With additional underground GFA of approximately 35,000 sq m for the commercial portion.
\# Obtained Occupation Permit on 3 July 2017.
⊕ Obtained 100% interest on 19 July 2017.
△ The development of these projects is under the co-investment agreements with the ultimate holding company and its wholly-owned subsidiaries.

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

Property Investment in Hong Kong

Gross rental income generated from the Group's property investment portfolio in Hong Kong for the first six months of 2017 rose to HK$178 million, an increase of 5.3% over the corresponding period in 2016. Gross rental income generated from the Pioneer Centre, the Group's wholly-owned flagship and core investment property in Hong Kong, rose 6.9% to HK$154 million.

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$31.3 million, an increase of 8.3% over the same period in 2016. 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$29.1 million for the first half of 2017 compared to HK$26.8 million for the corresponding period in 2016.

Oil

For the six months ended 30 June 2017, the segment recorded a loss of HK$9.5 million, representing an increase of approximately HK$2.6 million in operating loss over the same period in 2016. The increase in operating loss was primarily because the Group strategically lowered the current oil production during the period to preserve its oil reserves considering that no profit would have been generated at persistently low oil prices. Consequently, oil sales revenue was reduced significantly and, with substantial fixed operating costs associated with production, the segment's operating loss widened.

Ice Manufacturing and Cold Storage

During the period under review, total operating profit for the combined ice manufacturing and cold storage segment amounted to HK$10.6 million compared to HK$14.8 million for the corresponding period in 2016. While segment revenue remained stable for the period, the decrease in operating profit was attributable to the increase in non-recurring expenses relating to replacement and maintenance of machinery.

EVENTS AFTER THE REPORTING PERIOD

As announced on 22 June 2017, the Company entered into two sale and purchase agreements with Greatpath Group Limited and Max Great Investments Limited to acquire the equity interests of 15% and 5% together with the assignment of shareholders' loans in Ideaplan Investments Limited ("Ideaplan") for the aggregate considerations of approximately HK$164.3 million and approximately HK$54.8 million respectively, with the considerations payable to the vendors being satisfied by allotting and issuing 19,462,516 and 6,487,505 shares in the share capital of the Company respectively at HK$8.44 per share upon completion. Both transactions were successfully completed on 19 July 2017 and the Group now wholly owns the development project located in the Chong An district, a central business district of Wuxi, Mainland China with the total site area and GFA of approximately 68,833 sq m and approximately 404,400 sq m respectively through Ideaplan's subsidiary, Polytec Property (Wuxi) Limited ("Polytec Wuxi"), and controls the entire board of Polytec Wuxi.

PROSPECTS

In Hong Kong, the Group launched the presale of 63 Pokfulam in July 2017 and intends to launch the presale for the development project in Lei Yue Mun in the first half of 2018. Construction works for Upper East in Hung Hom are progressing well and is scheduled to be completed in 2018. This development project has been well received by the market and achieved satisfactory sales, with over 90% of residential units already being presold so far. The Group's development project in Tseung Kwan O is in the final stage of design and construction works will be commenced once all plans are approved.

In Mainland China, construction works for the Group's various development projects are progressing smoothly. The Group has been making every effort to obtain approvals for additional plans proposed for its various development projects aiming to further expand the scale of its existing development and boost property sales in the coming two to three years.

In Macau, with regard to the La Marina development project, based on the current progress in refinement works, it is expected that the presold residential units could be delivered to the buyers in the fourth quarter of 2017 as scheduled. The remaining residential units will be put on the market for sale in phases. Given that La Marina is a relatively sizeable development project, it is expected to make a contribution to the Group's earnings in the coming years. With respect to the Pearl Horizon development project, in addition to taking the legal route to protect the Group's as well as the buyers' interests, all other practicable approaches have been actively explored in order to be able to resume construction if and as soon as this becomes possible.

With regard to the Group's oil business in Kazakhstan held through Polytec Asset, as international oil prices for the rest of 2017 appear unlikely to change substantially from current levels, this segment is not expected to make a contribution to earnings for the second half of 2017. Given the relatively small scale of this business, its impact on the Group's results will be modest. In addition, the Group expects its investment property portfolio in Macau as well as its ice manufacturing and cold storage business in Hong Kong will continue to generate stable income for the second half of 2017.

Looking ahead, as a number of the Group's property development projects in Mainland China are scheduled to be completed in the second half of 2017, their sales proceeds will then be booked accordingly. Together with the partial income distribution from the La Marina development project in Macau, the Group's results for the second half of 2017 are expected to be better than its results in the same period of 2016, barring unforeseen circumstances.

The Group is currently facing different challenges in each of the three markets to which it has exposure and 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.

Or Wai Sheun
Chairman

Hong Kong, 23 August 2017

Financial Review

FINANCIAL RESOURCES AND BANK BORROWINGS

Total bank borrowings of the Group amounting to HK$12,226 million as at 30 June 2017 (31 December 2016: HK$10,070 million), comprising of HK$5,136 million repayable within one year and HK$7,090 million repayable after one year. Taking into account of cash and cash equivalents with an amount of HK$1,218 million, the Group's net bank borrowings position was HK$11,008 million as at 30 June 2017. Total loans from ultimate holding company and a fellow subsidiary amounted to HK$334 million as at 30 June 2017.

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 reduced to 47.7% as at 30 June 2017 (31 December 2016: 49.3%).

During the period under review, sales/presales for the property projects in Hong Kong contributed cash inflows of HK$823 million to the Group. Furthermore, the Group has recorded approximately of HK$533 million cash inflows mainly from sales/presales of various development projects in Mainland China.

In April 2017, the Group has successfully completed the land exchange for a residential project located in Tseung Kwan O, Hong Kong, which was acquired from the ultimate holding company in early 2016.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK$700 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 2017, 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 2017, the Group had commitments in connection with the Group's investment properties amounting to HK$28.3 million.

PLEDGE OF ASSETS

As at 30 June 2017, properties having a value of HK$20,088 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$847 million, representing a 50% proportional guarantee in respect of HK$1,694 million term loan facilities. The facilities were utilised to the extent of HK$1,417 million as at 30 June 2017.

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

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2017 $'000 (unaudited)	2016 $'000 (unaudited)
Revenue	3	**1,556,467**	2,760,097
Cost of sales		**(998,762)**	(2,194,952)
Other revenue		**19,632**	9,662
Other net income		**795**	596
Depreciation and amortisation		**(8,205)**	(8,644)
Staff costs		**(103,604)**	(95,591)
Selling, marketing and distribution expenses		**(84,089)**	(120,036)
Other operating expenses		**(43,158)**	(55,790)
Fair value changes on investment properties	8	**49,495**	(10,832)
Profit from operations		**388,571**	284,510
Finance costs	4(a)	**(66,973)**	(66,105)
Share of profits of associated companies		**68,551**	45,883
Share of profits of joint ventures		**111,980**	70,685
Profit before taxation	4	**502,129**	334,973
Income tax	5	**(70,395)**	(36,074)
Profit for the period		**431,734**	298,899
Attributable to:			
Shareholders of the Company		**408,730**	290,979
Non-controlling interests		**23,004**	7,920
Profit for the period		**431,734**	298,899
Earnings per share – Basic/Diluted	6	**$0.36**	$0.25

The notes on pages 20 to 33 form part of the interim financial report.

Consolidated Statement of Comprehensive Income

(Expressed in Hong Kong dollars)

	Six months ended 30 June 2017 $'000 (unaudited)	2016 $'000 (unaudited)
Profit for the period	**431,734**	298,899
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	**90,722**	(80,608)
Changes in fair value of interests in property development	**133,727**	(249,270)
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	**80,362**	(116,150)
	249,018	(446,028)
Total comprehensive income for the period	**680,752**	(147,129)
Attributable to:		
Shareholders of the Company	**629,390**	(70,553)
Non-controlling interests	**51,362**	(76,576)
Total comprehensive income for the period	**680,752**	(147,129)

The notes on pages 20 to 33 form part of the interim financial report.

Consolidated Statement of Financial Position

(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 $'000 (unaudited)		At 31 December 2016 $'000 (audited)	
Non-current assets					
Investment properties	8		**11,747,612**		11,600,514
Property, plant and equipment	9		**763,505**		780,012
Oil exploitation assets	9		**47,656**		48,156
Interests in property development	10		**13,466,816**		13,388,882
Interest in joint ventures			**3,245,275**		3,121,235
Interest in associated companies			**1,081,637**		1,796,371
Loans and advances	12		**1,006,143**		871,855
Deferred tax assets			**176,731**		176,058
			31,535,375		31,783,083
Current assets					
Inventories	11	**12,677,349**		12,083,996	
Trade and other receivables	12	**1,409,572**		1,797,498	
Loans and advances	12	**24,852**		24,816	
Amount due from a joint venture		**80,485**		72,452	
Pledged bank deposit		**15,000**		15,000	
Cash and bank balances		**1,218,140**		795,400	
		15,425,398		14,789,162	
Current liabilities					
Trade and other payables	13	**5,157,171**		5,166,617	
Amounts due to non-controlling interests		**200,000**		200,000	
Amount due to a joint venture		**716,080**		694,793	
Loan from an associated company		**38,122**		35,781	
Bank loans		**5,136,536**		2,544,200	
Current taxation		**86,071**		82,268	
		11,333,980		8,723,659	
Net current assets			**4,091,418**		6,065,503
Total assets less current liabilities			**35,626,793**		37,848,586

(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 $'000 (unaudited)		At 31 December 2016 $'000 (audited)	
Non-current liabilities					
Loan from ultimate holding company	14	**105,463**		1,534,546	
Loan from a fellow subsidiary	14	**228,337**		814,056	
Bank loans		**7,089,800**		7,525,853	
Other payables		**20,224**		21,409	
Deferred tax liabilities		**868,354**		861,838	
			8,312,178		10,757,702
NET ASSETS			**27,314,615**		27,090,884
Capital and reserves					
Share capital			**8,417,472**		8,417,472
Reserves			**15,342,845**		15,162,221
Total equity attributable to the shareholders of the Company			**23,760,317**		23,579,693
Non-controlling interests			**3,554,298**		3,511,191
TOTAL EQUITY			**27,314,615**		27,090,884

Approved and authorised for issue by the board of directors on 23 August 2017.

The notes on pages 20 to 33 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 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 and 1 July 2016	8,417,472	416	2,000,909	337,762	11,641,286	22,397,845	3,124,040	25,521,885
Changes in equity for the six months ended 31 December 2016								
Profit for the period	–	–	–	–	655,758	655,758	365	656,123
Other comprehensive income	–	–	1,117,098	(349,365)	–	767,733	389,144	1,156,877
Total comprehensive income	–	–	1,117,098	(349,365)	655,758	1,423,491	389,509	1,813,000
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 2016	8,417,472	416	3,118,007	(11,603)	12,055,401	23,579,693	3,511,191	27,090,884
(unaudited) At 1 January 2017	**8,417,472**	**416**	**3,118,007**	**(11,603)**	**12,055,401**	**23,579,693**	**3,511,191**	**27,090,884**
Changes in equity for the six months ended 30 June 2017								
Profit for the period	**–**	**–**	**–**	**–**	**408,730**	**408,730**	**23,004**	**431,734**
Other comprehensive income	**–**	**–**	**56,523**	**164,137**	**–**	**220,660**	**28,358**	**249,018**
Total comprehensive income	**–**	**–**	**56,523**	**164,137**	**408,730**	**629,390**	**51,362**	**680,752**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(448,766)**	**(448,766)**	**–**	**(448,766)**
Dividends paid/payable to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(8,255)**	**(8,255)**
At 30 June 2017	**8,417,472**	**416**	**3,174,530**	**152,534**	**12,015,365**	**23,760,317**	**3,554,298**	**27,314,615**

As at 30 June 2017, loans from non-controlling interests of $2,793,000 (31 December 2016: $2,873,000) are classified as equity being the capital contributions on subsidiaries by the non-controlling interests.

The notes on pages 20 to 33 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2017	2016
	$'000	$'000
	(unaudited)	(unaudited)
Net cash (used in)/generated from operating activities	**(515,739)**	1,146,772
Net cash used in investing activities	**(16,139)**	(216,494)
Financing activities		
Drawdown of bank loans	**2,301,000**	1,813,528
Other cash flows arising from financing activities	**(1,343,460)**	(2,347,966)
Net cash generated from/(used in) financing activities	**957,540**	(534,438)
Net increase in cash and cash equivalents	**425,662**	395,840
Cash and cash equivalents at 1 January	**788,964**	1,169,006
Effect of foreign exchange rate changes	**3,514**	(2,419)
Cash and cash equivalents at 30 June	**1,218,140**	1,562,427
Analysis of balances of cash and cash equivalents at 30 June		
Cash and bank balances	**1,218,140**	1,569,872
Less: Bank deposits with maturity more than 3 months	**–**	(7,445)
Cash and cash equivalents	**1,218,140**	1,562,427

The notes on pages 20 to 33 form part of the interim financial report.

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 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 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 2016 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 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 2017						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'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	–	–

	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	–	–

3 Segment reporting *(Continued)*

	At 30 June 2017						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	45,527,285	8,423,211	9,721,029	12,210,267	13,229,173	594,873	1,348,732
Deferred tax assets	176,731						
Pledged bank deposit	15,000						
Cash and bank balances	1,218,140						
Head office and corporate assets	23,617						
Consolidated total assets	46,960,773						
Interest in associated companies	1,081,637	–	1,048,326	–	–	–	33,311
Interest in and amounts due from joint ventures	3,325,760	–	1,853,960	–	1,471,800	–	–

	At 31 December 2016						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	45,556,737	7,819,996	10,741,145	12,131,166	13,046,339	605,925	1,212,166
Deferred tax assets	176,058						
Pledged bank deposit	15,000						
Cash and bank balances	795,400						
Head office and corporate assets	29,050						
Consolidated total assets	46,572,245						
Interest in associated companies	1,796,371	–	1,767,208	–	–	–	29,163
Interest in and amounts due from joint ventures	3,193,687	–	1,760,291	–	1,433,396	–	–

4 Profit before taxation

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

(a) Finance costs

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Interest on bank loans and overdrafts	**87,860**	68,042
Interest on loans from ultimate holding company and a fellow subsidiary	**13,257**	44,695
Less: Amount capitalised (Remark)	**(34,144)**	(38,246)
	66,973	74,491
Less: Interest expenses included as other operating expenses	**–**	(8,386)
	66,973	66,105

Remark: Borrowing costs were capitalised at rates of 1.42% – 2.15% (six months ended 30 June 2016: 1.20% – 1.78%) per annum in Hong Kong and 5.90% (six months ended 30 June 2016: 5.50% – 6.65%) per annum in Mainland China.

(b) Other items

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Rentals receivable under operating leases less outgoings	**(163,532)**	(157,211)
Rental income	**(177,962)**	(169,388)
Less: Outgoings	**14,430**	12,177
Depreciation and amortisation (Remark)	**17,726**	25,188
Interest income	**(26,499)**	(30,717)

Remark: Cost of sales includes $9,521,000 (six months ended 30 June 2016: $16,544,000) relating to depreciation and amortisation expenses.

5 Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2017	2016
	$'000	$'000
Current tax		
Provision for profits tax		
– Hong Kong	**37,463**	37,171
– Outside Hong Kong	**30,011**	13,329
	67,474	50,500
Land appreciation tax ("LAT")	**2,988**	19,338
Deferred tax	**(67)**	(33,764)
	70,395	36,074

The provision for Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2016: 16.5%) of the estimated assessable profits for the six months ended 30 June 2017. Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

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

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $408,730,000 (six months ended 30 June 2016: $290,979,000) and the weighted average number of ordinary shares in issue during the period of 1,150,681,275 (six months ended 30 June 2016: 1,150,681,275).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2017 and 2016.

7 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June 2017 $'000	2016 $'000
Interim dividend declared after the interim period of $0.22 (six months ended 30 June 2016: $0.21) per share	**258,859**	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 2017 $'000	2016 $'000
Final dividend in respect of the previous financial year, approved during the interim period, of $0.39 (six months ended 30 June 2016: $0.37) per share	**448,766**	425,752

8 Investment properties

The investment properties of the Group were revalued at 30 June 2017 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 revalued semi-annually by using the income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period. The Group's investment properties under development are revalued semi-annually by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

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 2017, investment properties under development stated at fair value amounted to $3,174,232,000 (31 December 2016: $3,044,184,000).

A revaluation gain of $49,495,000 (six months ended 30 June 2016: loss of $10,832,000) and deferred tax thereon of $14,555,000 (six months ended 30 June 2016: deferred tax credit of $13,639,000) were recognised in the consolidated income statement for the six months ended 30 June 2017.

9 Oil production assets and oil exploitation assets

As at 30 June 2017, the Group had oil production assets of $524,772,000 (31 December 2016: $533,652,000) (included in property, plant and equipment) and oil exploitation assets of $47,656,000 (31 December 2016: $48,156,000). 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 judgements in estimating future crude oil price, the discount rate used in discounting the projected cash flows and the production profile. The impairment reviews and calculations are based on assumptions that are consistent with the Group' s business plan and on the assumptions that all relevant licences and permits are obtained. However, the business environment, including 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 2017. 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 2017 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 above, the Group considers that there is no indication that gas flaring permits will not be renewed in the future.

As at 30 June 2017, 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 impairment loss is considered necessary for the period ended 30 June 2017. 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 2016: 12.5%).

Crude oil price assumptions were based on market expectations. At 30 June 2017, it is estimated that an increase/decrease of 20% (31 December 2016: 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 $272,816,000/$294,853,000 (31 December 2016: $285,252,000/$269,746,000). 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 2016: 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 $59,815,000/$66,991,000 (31 December 2016: $54,421,000/$61,203,000).

10 Interests in property development

Interests in property development represent the Group's interests in the development of two properties located at Lote P and Lotes T+T1 of Novos Aterros da Areia Preta, in Macau and one property located at Huizhou, in Mainland China under the co-investment agreements with 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 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 Circulars dated 23 May 2006 and 30 October 2013. Interests in property development are stated at fair value at the end of the reporting period.

In respect of the development project at Lote P, its land concession was agreed in December 1990 whereby the 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 would be renewable every 10 years until 2049. However, in September 2013, the Macau Special Administrative Region Government (the "Macau SAR Government") promulgated the Macau New Land Law (the "MNLL") which came into effect in March 2014. The MNLL provides that the Macau SAR Government will have the right to resume the land of any property development that is not completed and/or where the conditions as stated in the land concession for which have not been fulfilled by the stipulated expiry date without any compensation to the property owner. Owing to 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 hearing dates 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 judgement so that the Lote P development project will be re-activated and completed. The construction work will be resumed as soon as practicable subject to a favourable judgement 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 2017.

10 Interests in property development *(Continued)*

One of the key assumptions for the discounted cash flow model to measure the fair value of the interest in property development of Lote P is the completion date. As at 30 June 2017, it is estimated that deferring the completion date of the Lote P development project by one year (31 December 2016: one year), with all other variables held constant, would have decreased the fair value reserve of the interests in property development by $695,550,000 (31 December 2016: $698,807,000).

In respect of the development project at Lotes T+T1, the occupation permit had been obtained on 3 July 2017 which was before the expiry date of its land concession on 5 July 2017. Based on the current status, it is expected that the pre-sold residential units could be delivered to the buyers in the fourth quarter of 2017.

During the period, pursuant to one of the co-investment agreements, a distribution of $55,793,000 (six months ended 30 June 2016: $Nil) was made by Polytec Holdings in relation to the development project at Huizhou which was applied against the amount received from interests in property development. Income from interests in property development recognised in income statement from the distribution during the period amounted to $55,793,000 (six months ended 30 June 2016: $Nil).

11 Inventories

	At 30 June 2017 $'000	At 31 December 2016 $'000
Land held for future development	**13,003**	12,994
Properties under development	**11,143,645**	9,636,247
Properties held for sale	**1,508,546**	2,420,246
Trading goods and consumables	**12,155**	14,509
	12,677,349	12,083,996

The amount of properties held for future development and under development expected to be recovered after more than one year is $13,003,000 (31 December 2016: $12,994,000) and $8,698,567,000 (31 December 2016: $8,277,000,000) respectively. All of the other inventories are expected to be recovered within one year.

12 Trade and other receivables/Loans and advances

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

	At 30 June 2017 $'000	At 31 December 2016 $'000
Current	**2,053,070**	2,300,082
Within 3 months	**17,626**	16,648
3 months to 6 months	**762**	350
More than 6 months	**16,083**	14,034
Trade receivables and loans and advances	**2,087,541**	2,331,114
Utility and other deposits	**43,022**	42,875
Other receivables and prepayments	**310,004**	320,180
	2,440,567	2,694,169

Receivables and prepayments of the Group of $326,898,000 (31 December 2016: $280,781,000) are expected to be recovered after more than one year.

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

13 Trade and other payables

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

	At 30 June 2017 $'000	At 31 December 2016 $'000
Not yet due or on demand	**1,414,876**	1,692,225
Within 3 months	**13,628**	7,422
3 months to 6 months	**1**	18
More than 6 months	**3**	3
Trade payables	**1,428,508**	1,699,668
Rental and other deposits	**77,759**	74,824
Other payables and accrued expenses	**745,764**	463,844
Deposits received on sale of properties	**2,905,140**	2,928,281
	5,157,171	5,166,617

14 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.

15 Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13,"Fair value measurement", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

	At 30 June 2017 $'000	At 31 December 2016 $'000
Assets		
Level 3		
Interests in property development	**13,466,816**	13,388,882

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 2017 $'000	At 31 December 2016 $'000
At 1 January	**13,388,882**	12,114,871
Change in fair value recognised in other comprehensive income	**133,727**	1,274,011
Distribution	**(55,793)**	–
At 30 June/31 December	**13,466,816**	13,388,882

Interests in property development are stated at their fair value measured using a discounted cash flow model. In preparing the discounted cash flow model, management estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate based on the past performance, current market conditions, development and building plans, sale and marketing plans and management' s expectations for the market development and terms provided under the co-investment agreements. Any adverse change in the key assumptions could decrease the fair value.

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

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 2017, 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 $720,000,000/$711,248,000 (31 December 2016: $590,851,000/$590,852,000).

16 Capital commitments

Capital commitments outstanding at the end of the reporting period not provided but contracted for amounted to $28,319,000 (31 December 2016: $29,891,000).

17 Contingent liabilities

As at 30 June 2017, the Group has provided guarantees of $846,852,000 (31 December 2016: $1,011,727,000) representing a 50% proportional guarantee in respect of an aggregate of $1,693,705,000 term loan facilities (31 December 2016: $2,023,453,000) to a joint venture in Mainland China. The facilities were utilised to the extent of $1,417,181,000 (31 December 2016: $1,755,150,000) at 30 June 2017.

18 Pledge of assets

As at 30 June 2017, properties having a value of $20,088,350,000 (31 December 2016: $18,678,732,000) and bank deposits of $15,000,000 (31 December 2016: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

19 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 2017, 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 $21,707,000 (31 December 2016: $24,727,000).

(c) As at 30 June 2017, certain bank loans were secured by properties and shares of and guaranteed by fellow subsidiaries of Polytec Holdings having a total value of $4,595,500,000 (31 December 2016: $1,750,000,000).

(d) As at 30 June 2017, loans to a joint venture of $219,500,000 (31 December 2016: $219,500,000) was unsecured, interest bearing at a fixed rate with reference to bank lending rate and is not expected to be repaid within one year. As at 30 June 2017, amount due from a joint venture of $80,485,000 (31 December 2016: $72,452,000) and amount due to a joint venture of $716,080,000 (31 December 2016: $694,793,000) were unsecured, interest free and repayable on demand.

(e) As at 30 June 2017, loan to an associated company of $762,396,000 (31 December 2016: $1,543,784,000) were unsecured, interest bearing at a rate determined by the shareholders and were not expected to be repaid within one year. During the period, interest income of $13,326,000 (six months ended 30 June 2016: $35,034,000) was recognised in profit or loss. As at 30 June 2017, accumulated accrued interest income of approximately RMB1,124,000,000 (31 December 2016: RMB1,060,000,000) 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.

20 Non-adjusting events after the reporting period

On 22 June 2017, the Group entered into sale and purchase agreements with non-controlling interests shareholders of Ideaplan Investments Limited ("Ideaplan", a 80% owned subsidiary) for the acquisition of remaining 20% equity interests in Ideaplan and assignments of shareholder's loans, for an aggregate consideration of approximately $219.1 million. The consideration was satisfied by the allotment and issue of a total of 25,950,021 shares of the Company at the issue price of $8.44 per share. The transaction was completed on 19 July 2017.

Independent Review Report of the Auditor

KPMG

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 33 which comprises the consolidated statement of financial position of Kowloon Development Company Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2017 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 2017 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, 23 August 2017

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, 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 Annual Report 2016.

Code Provision A.6.7
All Non-executive Directors and Independent Non-executive Directors attended the Annual General Meeting of the Company held on 7 June 2017 ("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 (the "Model Code") (Appendix 10 to the Listing Rules) as a code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the period under review and all the Directors have confirmed that they had fully complied with the required standard 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 Li Kwok Sing, Aubrey, an Independent Non-executive Director of the Company, has tendered his resignation as an independent non-executive director of China Everbright International Limited ("China Everbright International", a company listed on the Stock Exchange of Hong Kong) with effect from the close of the annual general meeting of China Everbright International held on 24 May 2017.

2. The monthly salary of the following Directors has been adjusted with effect from 1 July 2017 and details are set out below:

	1 January 2017 to 30 June 2017	From 1 July 2017
Or Pui Kwan	HK$70,000	HK$71,400
Lam Yung Hei	HK$76,900	HK$83,100
Lai Ka Fai	HK$171,000	HK$177,800
Yeung Kwok Kwong	HK$186,700	HK$190,400

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 2017, 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 2017.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2017, 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 (Chapter 571 of the Laws of Hong Kong) ("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(s)
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%	
Lam Yung Hei	Family	830,770,124	72.20%	2 & 4
Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	5
Lai Ka Fai	Personal	751,000	0.07%	
David John Shaw	Personal	133,500		
	Family	67,000		6
		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 7)	Note(s)
Or Wai Sheun	Founder and beneficiary of a trust	3,260,004,812	73.44%	8
Ng Chi Man	Beneficiary of a trust	3,260,004,812	73.44%	8
Or Pui Kwan	Beneficiary of a trust	3,260,004,812		8
	Personal	7,000,000		
		3,267,004,812	73.60%	
Lam Yung Hei	Family	3,260,004,812		8 & 9
	Family	7,000,000		10
		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 2017.

(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), Mr Or Pui Kwan (his son) and Ms Or Pui Ying, Peranza (his daughter and the spouse of Mr Lam Yung Hei), 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) Mr Lam Yung Hei is deemed to be interested in such shares by virtue of his spouse is one of the discretionary objects of the trust.

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

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

(7) 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 2017. Polytec Asset is an associated corporation of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS *(CONTINUED)*

2. Long positions in the shares of Polytec Asset *(Continued)*

Notes: *(Continued)*

(8) The four 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, Mr Or Pui Kwan and Ms Or Pui Ying, Peranza are taken to be interested in the shares of Polytec Asset.

(9) Mr Lam Yung Hei is deemed to be interested in such shares in Polytec Asset through the interest of his spouse in the Company.

(10) Such interest in shares of Polytec Asset is held by the spouse of Mr Lam Yung Hei.

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2017, shareholders (other than Directors and the chief executives 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 2017.

(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 2017. 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 2017, the Company had not been notified by any persons (other than the Directors or the chief executives of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2017, the Group had a total of 970 employees (31 December 2016: 941 employees), of which 573 were Hong Kong staff, 185 were Mainland China staff and 212 were staff in other regions. The increase in headcount was mainly to match business growth. During the period, total staff costs increased to HK$128 million (30 June 2016: HK$106 million) due to salary revisions in July 2016 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

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

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 27 November 2017 to Tuesday, 28 November 2017, 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, 24 November 2017.

CORPORATE CITIZENSHIP

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

WWF Gold Member 黃金會員 2016/17 HONG KONG

Besides making charitable donations, we have also taken part in "Earth Hour 2017" launched by WWF-Hong Kong.

5 years+ 商界展關懷 caringcompany

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 2017. 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 34 of this interim report.

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