



INTERIM REPORT
中期報告 2021



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

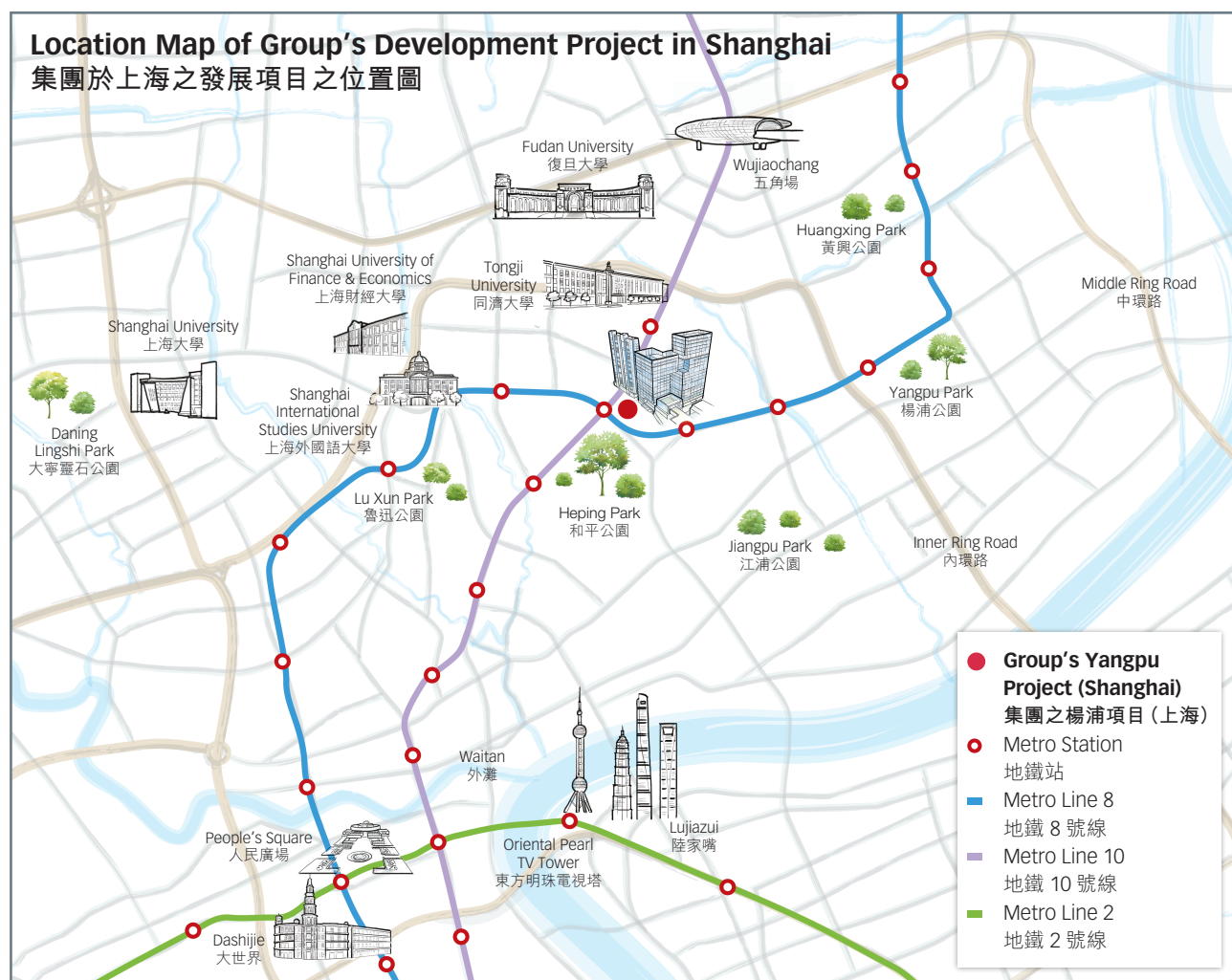
Stock Code 股份代號: 34

Kowloon Development Company Limited

九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has been engaged in property investment and investment holding with the operation of its business mainly in Hong Kong since its establishment. It has substantially broadened the areas of its business activity since the Polytec group gained the control of it in 2002. The Group is principally engaged in property development, property investment and property management in Hong Kong and Mainland China. It is determinedly committed to enhancing its competitive position, with its landbank amounting to approximately 3.6 million sq m of attributable gross floor area in Hong Kong and Mainland China as at 30 June 2021. The Group is also engaged in financial investments and investment holding.

九龍建業有限公司(股份代號：34)自成立以來一直從事物業投資及投資控股業務，其業務主要於香港營運。本公司自保利達集團於二零零二年入主起便大幅擴闊其業務範圍，集團主要於香港及中國大陸從事物業發展、物業投資及物業管理業務。集團致力提升本身之競爭優勢，截至二零二一年六月三十日，其於香港及中國大陸土地儲備之應佔總樓面面積約3,600,000平方米。集團亦從事金融投資及投資控股業務。



Contents

| | |
|----|---|
| 2 | Corporate Information |
| 4 | Group's Business Structure |
| 5 | Highlights |
| 6 | Chairman's Statement |
| 9 | Financial Review |
| 10 | Independent Review Report of the Auditor |
| 11 | Consolidated Income Statement |
| 13 | Consolidated Statement of Comprehensive Income |
| 14 | Consolidated Statement of Financial Position |
| 16 | Consolidated Statement of Changes in Equity |
| 17 | Condensed Consolidated Cash Flow Statement |
| 18 | Notes to the Unaudited Interim Financial Report |
| 34 | Other Information |



Artist's Impression of Yangpu Project (Shanghai)

Corporate Information

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Executive Directors

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

Non-executive Directors

Ms Ng Chi Man
Mr Yeung Kwok Kwong

Independent Non-executive Directors

Mr Li Kwok Sing, Aubrey
Mr Lok Kung Chin, Hardy
Mr Seto Gin Chung, John
Mr David John Shaw

Committees

Executive Committee

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

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary

Mr Lee Kuen Chiu

Independent Auditor

KPMG

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

Authorised Representatives

Mr Lai Ka Fai

Mr Lee Kuen Chiu

Legal Adviser

Sidley Austin

Share Registrar

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

Registered Office

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

Stock Code

The Stock Exchange of Hong Kong Limited: 34

Principal Bankers

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

Financial Calendar for Interim Results 2021

| | |
|---------------------------------------|--|
| Interim results announcement | 18 August 2021 |
| Ex-dividend date for interim dividend | 11 November 2021 |
| Closure of register of members | 15 November 2021 – 16 November 2021 (both dates inclusive) |
| Interim dividend payable | 1 December 2021 |

Group's Business Structure



Highlights

- For the six months ended 30 June 2021, the Group's unaudited net profit attributable to shareholders of the Company rose to HK\$619 million from HK\$575 million in the corresponding period of 2020, an increase of 7.7%.
- For the period under review, there were no sales being recognised from new development projects. Therefore, excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interests in the property development, underlying net profit attributable to shareholders of the Company for the first half of 2021 fell significantly to HK\$312 million from HK\$1,009 million in the same period of 2020, a decrease of 69.1%. The underlying net interim earnings per share for 2021 were HK\$0.27 compared to HK\$0.86 for 2020.
- Interim dividend for 2021 amounts to HK\$0.25 per share (2020: HK\$0.24).



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

Chairman's Statement

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2021, the Group's unaudited net profit attributable to shareholders of the Company rose to HK\$619 million from HK\$575 million in the corresponding period of 2020, an increase of 7.7%. The interim earnings per share for 2021 amounted to HK\$0.53 compared to HK\$0.49 for the same period in 2020.

For the period under review, there were no sales being recognised from new development projects. Therefore, excluding revaluation changes from the Group's investment properties net of tax and fair value changes on its interests in the property development, underlying net profit attributable to shareholders of the Company for the first half of 2021 fell significantly to HK\$312 million from HK\$1,009 million in the same period of 2020, a decrease of 69.1%. The underlying net interim earnings per share for 2021 were HK\$0.27 compared to HK\$0.86 for 2020.

The Board of Directors has declared an interim dividend of HK\$0.25 per share for 2021 (2020: HK\$0.24). The interim dividend will be payable on Wednesday, 1 December 2021 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 16 November 2021.

MARKET OVERVIEW AND BUSINESS REVIEW

In Hong Kong, despite the COVID-19 pandemic having not been fully contained, due to the Hong Kong-US dollar peg, the Fed's on-going quantitative easing and hence ultra-low interest rates continued to drive the property market in the first half of 2021, with residential transaction volume rising considerably and the average transaction price recording an increase.

In Mainland China, the pandemic has been largely contained since the middle of last year and both transaction volume and price in the residential market rose to varying degrees in major cities for the first six months of 2021.

Development Property Sales

In Hong Kong, the Group did not launch any new development projects for presale/sale in the first half of 2021 and continued to promote the sale of a small number of remaining residential units of its existing development projects.

In Mainland China, for the period under review, the presale of a newly launched phase development of the two existing projects, namely Le Cove Garden in Huizhou and The Gardenia in Shenyang respectively, was well received by the market.



MARKET OVERVIEW AND BUSINESS REVIEW (CONTINUED)

Property Development

As at 30 June 2021, the Group's landbank for development amounted to approximately 3.6 million sq m of attributable gross floor area ("GFA"). The Group's major property projects under planning and development are set out as follows:

Major Property Projects under Planning and Development

| Property Project | District/City | Usage | Approx. Total Site Area (sq m) | Approx. GFA (sq m) | Approx. GFA Booked* (sq m) | Group's Interest | Project Status | Expected Date of Completion |
|--|--------------------------------|--------------------------|--------------------------------|--------------------|----------------------------|------------------|--|--|
| Hong Kong | | | | | | | | |
| Tseung Kwan O | Tseung Kwan O, New Territories | Residential | 9,640 | 48,200 | - | 100% | Topping-out of superstructure works completed | Mid-2022 |
| High Street | Sai Ying Pun, Hong Kong | Residential & commercial | 508 | 4,660 | - | 60% | Design stage | End-2024 |
| Clear Water Bay Road | Ngau Chi Wan, Kowloon | Residential & commercial | 19,340 | 196,400 | - | 100% | Land premium procedures in progress | To be determined |
| Mainland China | | | | | | | | |
| Le Cove City (Shenyang) 江灣城(瀋陽) | Hun Nan Xin District, Shenyang | Residential & commercial | 165,000 | 712,000 | 369,000 | 100% | Foundation works for Phase 5 (approx. GFA of 240,000 sq m) in progress | Phase 5 2023/2024 |
| The Gardenia (Shenyang) 翠堤灣(瀋陽) | Shenhe District, Shenyang | Residential & commercial | 1,100,000 | 2,000,000 | 607,000 | 100% | Superstructure works for Phase 3A (approx. GFA of 74,000 sq m) in progress | Phase 3A End-2021/2022 |
| Le Cove Garden (Huizhou) 江灣南岸花園(惠州) | Huicheng District, Huizhou | Residential & commercial | 146,000 | 520,000 | 246,000 | 60% | Topping-out of superstructure works for Phase 2 (approx. GFA of 147,000 sq m) completed | Phase 2 End-2021 |
| The Lake (Foshan) 山語湖(佛山) | Nanhai District, Foshan | Residential & commercial | 4,021,000 | 1,600,000 | 854,000 | 50% | Superstructure works for Phase 3 (approx. GFA of 143,000 sq m) in progress | Phase 3 2022 |
| Le Cove City (Wuxi) 江灣城(無錫) | Liangxi District, Wuxi | Residential & commercial | 69,000 | 365,000 | 111,000 | 100% | Foundation works for Phase 3 (approx. GFA of 73,000 sq m) in progress Superstructure works for Phase 4 (approx. GFA of 170,000 sq m) in progress | Phase 3 and Phase 4 2023 – 2025 |
| City Plaza (Tianjin) 城市廣場(天津) | Hedong District, Tianjin | Residential & commercial | 136,000 | 850,000 | 244,000 | 49% | Superstructure works for Phase 3A (approx. GFA of 300,000 sq m) in progress Foundation works for Phase 3B (approx. GFA of 280,000 sq m) in progress | Phase 3A 2023 Phase 3B 2025 |
| Yangpu (Shanghai) 楊浦(上海) | Yangpu District, Shanghai | Residential & commercial | 21,000 | 75,000 | - | 100% | Master planning in progress | 2024 |
| Jiexiu (Shanxi) 介休(山西) | Jiexiu | Residential & commercial | 181,000 | 463,000 | - | 100% | Master planning in progress | 2023 – 2026 |

* Approx. GFA booked and recognised in the financial statements.

MARKET OVERVIEW AND BUSINESS REVIEW *(CONTINUED)*

Property Investment in Hong Kong

Gross rental income generated from the Group's investment property portfolio in Hong Kong rose to HK\$151 million in the first six months of 2021 from HK\$139 million in the corresponding period of 2020, an increase of 8.6%.

Financial Investments

Total net income generated from the Group's financial investment activities for the first six months of 2021 rose to HK\$34.2 million compared to HK\$23.3 million for the same period in 2020, an increase of 46.8%.

PROSPECTS

In Hong Kong, the Group intends to launch the presale of its wholly-owned development project in Tseung Kwan O in late-2021 or the early of 2022, with 1,556 residential units in total.

The planning and design for the Group's 60%-owned residential development project on High Street in Sai Ying Pun is well underway and the site formation works will be commenced by the end of 2021.

In Mainland China, the presale of a new phase development of the two existing projects in Huizhou and Shenyang respectively has been recently launched.

In Huizhou, the presale of the Phase 2 residential development of Le Cove Garden has been well received by the market, with almost all residential units being sold. The remaining units will continue to be promoted for sale and the residential units are expected to be completed and delivered to the buyers by the end of 2021.

In Shenyang, the presale of the Phase 3A residential development of The Gardenia was satisfactory and the Group continues to promote the sale for the remaining residential units which are expected to be completed and delivered to the buyers by the end of 2021.

In Wuxi, the superstructure works for the Phase 4 development of Le Cove City are in progress and the presale of a portion of residential units is expected to be launched in the fourth quarter of 2021.

In Shanghai, the overall planning and design for the Group's redevelopment project is in progress, with the completion of relocation works and demolition works.

While relatively less sales can be recognised from the Group's existing development projects in Hong Kong and Mainland China for the full year of 2021, it is expected that sales from the Tseung Kwan O development project in Hong Kong will contribute considerably to the Group's earnings when completed in 2022.

The Group will continue to explore good opportunities to replenish its quality landbank, aiming to gradually strengthen the foundation and development potential of the Group.

I would like to express my sincere gratitude to all of our staff for their professionalism and devotion, being the pillars of the Group's steady growth over the past many years.



Or Wai Sheun
Chairman

Hong Kong, 18 August 2021

Financial Review

FINANCIAL RESOURCES AND BANK BORROWINGS

Total bank borrowings of the Group amounting to HK\$14,282 million as at 30 June 2021 (31 December 2020: HK\$11,875 million), comprising of HK\$5,946 million repayable within one year and HK\$8,336 million repayable after one year. Taking into account of cash and bank balances with an amount of HK\$2,427 million, the Group's net bank borrowings position was HK\$11,855 million as at 30 June 2021. Loan from a related company amounted to HK\$1,588 million as at 30 June 2021.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from a related company less amount due from a related company over equity attributable to shareholders of the Company) was 75.5% as at 30 June 2021 (31 December 2020: 65.5%). The gearing ratio is expected to be improved upon recognised sale of the Tseung Kwan O project, Hong Kong from 2022 onwards.

During the period, sales/presales for the property projects in Hong Kong contributed cash inflows of approximately HK\$159 million to the Group. Furthermore, the Group recorded approximately HK\$175 million cash inflows mainly from sales/presales of various development projects in Mainland China.

During the period, distribution of HK\$220 million was declared by a related company to the Group in relation to the development project at Le Cove Garden (Huizhou).

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of approximately HK\$1,047 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.

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

CAPITAL COMMITMENTS

As at 30 June 2021, the Group had commitments mainly in connection with the Group's investment properties amounting to HK\$22 million.

PLEDGE OF ASSETS

As at 30 June 2021, properties having a value of HK\$14,552 million and deposits of HK\$15 million were pledged to banks and insurance companies mainly to secure banking facilities and performance bonds extended to the Group.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of HK\$36 million.

Independent Review Report of the Auditor



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

Introduction

We have reviewed the interim financial report set out on pages 11 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 2021 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 2021 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, 18 August 2021

Consolidated Income Statement

(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 June | |
|---|------|-------------------------------|---|
| | | 2021 \$'000 (unaudited) | 2020 \$'000 (unaudited) (restated) |
| Continuing operations | | | |
| Revenue | 3 | 995,623 | 3,439,565 |
| Cost of sales | | (169,547) | (1,760,773) |
| Other revenue | | 21,501 | 32,219 |
| Other net expenses | 5(a) | (41,285) | (8,445) |
| Depreciation and amortisation | | (11,484) | (15,056) |
| Staff costs | | (280,094) | (294,548) |
| Selling, marketing and distribution expenses | | (45,696) | (197,918) |
| Other operating expenses | | (59,099) | (94,384) |
| Fair value changes on investment properties | 9 | 255,908 | (331,022) |
| Fair value change on interest in property development | | 51,028 | 8,659 |
| Profit from operations | | 716,855 | 778,297 |
| Finance costs | 5(b) | (18,337) | (95,508) |
| Share of (losses)/profits of associated companies | | (5,344) | 9,333 |
| Share of (losses)/profits of joint ventures | | (13,286) | 19,862 |
| Profit before taxation | 5 | 679,888 | 711,984 |
| Income tax | 6 | (57,537) | (186,115) |
| Profit for the period from continuing operations | | 622,351 | 525,869 |
| Discontinued operations | | | |
| Profit for the period from discontinued operations | 4 | – | 72,805 |
| Profit for the period | | 622,351 | 598,674 |

Consolidated Income Statement
(Expressed in Hong Kong dollars)

| | Note | Six months ended 30 June | |
|--|------|-------------------------------|---|
| | | 2021 \$'000 (unaudited) | 2020 \$'000 (unaudited) (restated) |
| Attributable to: | | | |
| Shareholders of the Company | | 619,289 | 575,369 |
| Non-controlling interests | | 3,062 | 23,305 |
| Profit for the period | | 622,351 | 598,674 |
| Attributable to shareholders of the Company arising from: | | | |
| Continuing operations | | 619,289 | 523,830 |
| Discontinued operations | 4 | – | 51,539 |
| | | 619,289 | 575,369 |
| Attributable to non-controlling interests arising from: | | | |
| Continuing operations | | 3,062 | 2,039 |
| Discontinued operations | 4 | – | 21,266 |
| | | 3,062 | 23,305 |
| Earnings per share – Basic and diluted | 7 | | |
| Continuing operations | | \$0.53 | \$0.45 |
| Discontinued operations | | – | \$0.04 |
| | | \$0.53 | \$0.49 |

The notes on pages 18 to 33 form part of the interim financial report.

Consolidated Statement of Comprehensive Income

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|--|-------------------------------|---|
| | 2021 \$'000 (unaudited) | 2020 \$'000 (unaudited) (restated) |
| Profit for the period | 622,351 | 598,674 |
| Other comprehensive income for the period | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong | 50,663 | (81,729) |
| Share of other comprehensive income of joint ventures and associated companies | 38,723 | (87,727) |
| | 89,386 | (169,456) |
| Total comprehensive income for the period | 711,737 | 429,218 |
| Attributable to: | | |
| Shareholders of the Company | 707,931 | 416,350 |
| Non-controlling interests | 3,806 | 12,868 |
| Total comprehensive income for the period | 711,737 | 429,218 |
| Total comprehensive income for the period attributable to shareholders of the Company arising from: | | |
| Continuing operations | 707,931 | 364,811 |
| Discontinued operations | – | 51,539 |
| | 707,931 | 416,350 |
| Total comprehensive income for the period attributable to non-controlling interests arising from: | | |
| Continuing operations | 3,806 | (8,398) |
| Discontinued operations | – | 21,266 |
| | 3,806 | 12,868 |

The notes on pages 18 to 33 form part of the interim financial report.

Consolidated Statement of Financial Position

(Expressed in Hong Kong dollars)

| | Note | At 30 June 2021 \$'000 (unaudited) | At 31 December 2020 \$'000 (audited) |
|--|------|--|--|
| Non-current assets | | | |
| Investment properties | 9 | 10,160,270 | 9,859,630 |
| Property, plant and equipment | | 283,923 | 291,529 |
| Interest in property development | 10 | 1,862,799 | 1,811,771 |
| Interest in a joint venture | | 2,076,359 | 2,067,652 |
| Interest in associated companies | | 1,501,406 | 1,527,988 |
| Other financial assets | 11 | 1,330,828 | 916,503 |
| Trade and other receivables | 13 | 77,018 | 87,340 |
| Loans and advances | 13 | 452,646 | 514,304 |
| Deferred tax assets | | 37,501 | 37,409 |
| | | 17,782,750 | 17,114,126 |
| Current assets | | | |
| Inventories | 12 | 15,816,868 | 15,040,616 |
| Trade and other receivables | 13 | 681,525 | 579,031 |
| Loans and advances | 13 | 17,100 | 18,309 |
| Other financial assets | 11 | 104,003 | 105,671 |
| Amount due from a related company | 10 | 220,000 | – |
| Amount due from a joint venture | | 112,883 | 112,883 |
| Cash and bank balances | | 2,427,299 | 1,133,841 |
| | | 19,379,678 | 16,990,351 |
| Current liabilities | | | |
| Trade and other payables | 14 | 2,243,302 | 2,403,642 |
| Amount due to a joint venture | | 482,527 | 477,046 |
| Loan from an associated company | | 47,615 | 47,075 |
| Bank loans | | 5,945,254 | 5,747,849 |
| Current taxation | | 328,723 | 488,433 |
| | | 9,047,421 | 9,164,045 |
| Net current assets | | 10,332,257 | 7,826,306 |
| Total assets less current liabilities | | 28,115,007 | 24,940,432 |

Consolidated Statement of Financial Position
(Expressed in Hong Kong dollars)

| | Note | At 30 June 2021 \$'000 (unaudited) | At 31 December 2020 \$'000 (audited) |
|---|------|--|--|
| Non-current liabilities | | | |
| Loan from a related company | 15 | 1,588,175 | 695,335 |
| Bank loans | | 8,336,377 | 6,127,401 |
| Deferred tax liabilities | | 549,439 | 529,503 |
| | | 10,473,991 | 7,352,239 |
| NET ASSETS | | 17,641,016 | 17,588,193 |
| Capital and reserves | | | |
| Share capital | | 8,636,490 | 8,636,490 |
| Reserves | | 8,882,254 | 8,833,237 |
| Total equity attributable to the shareholders of the Company | | 17,518,744 | 17,469,727 |
| Non-controlling interests | | 122,272 | 118,466 |
| TOTAL EQUITY | | 17,641,016 | 17,588,193 |

Approved and authorised for issue by the board of directors on 18 August 2021.

The notes on pages 18 to 33 form part of the interim financial report.

Consolidated Statement of Changes in Equity

(Expressed in Hong Kong dollars)

| | Note | Attributable to shareholders of the Company | | | | Total \$'000 | Non- controlling interests \$'000 | Total equity \$'000 |
|---|------|---|------------------------------|--------------------------------|-------------------------------|-------------------|--|---------------------------|
| | | Share capital \$'000 | Capital reserve \$'000 | Exchange reserves \$'000 | Retained profits \$'000 | | | |
| At 1 January 2020 | | 8,636,490 | (176,595) | (102,262) | 18,710,574 | 27,068,207 | 4,253,141 | 31,321,348 |
| Changes in equity for the six months ended 30 June 2020 | | | | | | | | |
| Profit for the period | | - | - | - | 575,369 | 575,369 | 23,305 | 598,674 |
| Other comprehensive income | | - | - | (159,019) | - | (159,019) | (10,437) | (169,456) |
| Total comprehensive income | | - | - | (159,019) | 575,369 | 416,350 | 12,868 | 429,218 |
| Dividends approved in respect of the previous year | 8(b) | - | - | - | (635,381) | (635,381) | - | (635,381) |
| Dividends paid/payable to non-controlling interests | | - | - | - | - | - | (80,747) | (80,747) |
| At 30 June and 1 July 2020 | | 8,636,490 | (176,595) | (261,281) | 18,650,562 | 26,849,176 | 4,185,262 | 31,034,438 |
| Changes in equity for the six months ended 31 December 2020 | | | | | | | | |
| Profit for the period | | - | - | - | 225,499 | 225,499 | 73,703 | 299,202 |
| Other comprehensive income | | - | - | 655,035 | - | 655,035 | 24,532 | 679,567 |
| Total comprehensive income | | - | - | 655,035 | 225,499 | 880,534 | 98,235 | 978,769 |
| Dividends approved in respect of the current year | 8(a) | - | - | - | (282,392) | (282,392) | - | (282,392) |
| Dividends paid/payable to non-controlling interests | | - | - | - | - | - | (19,877) | (19,877) |
| Special dividend by way of distribution in specie of shares in a subsidiary (<i>Remark</i>) | | - | - | (8,198) | (9,969,393) | (9,977,591) | (4,145,154) | (14,122,745) |
| At 31 December 2020 | | 8,636,490 | (176,595) | 385,556 | 8,624,276 | 17,469,727 | 118,466 | 17,588,193 |
| (unaudited) | | | | | | | | |
| At 1 January 2021 | | 8,636,490 | (176,595) | 385,556 | 8,624,276 | 17,469,727 | 118,466 | 17,588,193 |
| Changes in equity for the six months ended 30 June 2021 | | | | | | | | |
| Profit for the period | | - | - | - | 619,289 | 619,289 | 3,062 | 622,351 |
| Other comprehensive income | | - | - | 88,642 | - | 88,642 | 744 | 89,386 |
| Total comprehensive income | | - | - | 88,642 | 619,289 | 707,931 | 3,806 | 711,737 |
| Dividends approved in respect of the previous year | 8(b) | - | - | - | (658,914) | (658,914) | - | (658,914) |
| At 30 June 2021 | | 8,636,490 | (176,595) | 474,198 | 8,584,651 | 17,518,744 | 122,272 | 17,641,016 |

Remark: During the year ended 31 December 2020, the Group distributed all its 70.79% equity interest in Polytec Asset Holdings Limited ("PAH") through special dividend as disclosed in note 8(a). A total of 3,142,341,682 PAH shares with an aggregate net asset value of approximately of \$9,977,591,000 was recognised as distribution during 2020, which represented a distribution of approximately \$8.48 per share of the Company.

The notes on pages 18 to 33 form part of the interim financial report.

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|-------------------------------|-------------------------------|
| | 2021 \$'000 (unaudited) | 2020 \$'000 (unaudited) |
| Net cash (used in)/generated from operating activities | (939,130) | 631,807 |
| Investing activities | | |
| Decrease in pledged bank deposits | – | 15,000 |
| Purchase of debt investments | (417,395) | (499,190) |
| Other cash flows arising from investing activities | 272 | (55,104) |
| Net cash used in investing activities | (417,123) | (539,294) |
| Financing activities | | |
| Drawdown of bank loans | 2,434,716 | 2,075,558 |
| Repayment of bank loans | (51,815) | (48,299) |
| Increase/(Decrease) in loan from a related company | 912,336 | (2,653,328) |
| Dividend paid to shareholders of the Company | (656,010) | (631,936) |
| Other cash flows arising from financing activities | – | (80,747) |
| Net cash generated from/(used in) financing activities | 2,639,227 | (1,338,752) |
| Net increase/(decrease) in cash and cash equivalents | 1,282,974 | (1,246,239) |
| Cash and cash equivalents at 1 January | 1,133,841 | 3,259,366 |
| Effect of foreign exchange rate changes | 10,484 | (19,288) |
| Cash and cash equivalents at 30 June | 2,427,299 | 1,993,839 |
| Analysis of balances of cash and cash equivalents at 30 June | | |
| Cash and bank balances | 2,427,299 | 2,026,682 |
| Less: Deposits over 3 months | – | (32,843) |
| Cash and cash equivalents | 2,427,299 | 1,993,839 |

The notes on pages 18 to 33 form part of the interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1 Basis of preparation

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 interim financial report is unaudited, but has been reviewed by KPMG 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. KPMG’s independent review report to the Board of Directors is included on page 10.

The financial information relating to the financial year ended 31 December 2020 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 2020 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 have 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 reportable segments.

Continuing operations

- Property development segment (Hong Kong/Mainland China): the development and sale of properties and interest in property development. Given the importance of the property development division to the Group, the Group's property development business is segregated further into two reportable segments on a geographical basis.
- Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.
- Other businesses segment: mainly includes the financial investments, the provision of finance services, the provision of property management services and treasury operations.

Discontinued operations

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

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

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

Reportable segment profit represents profit before taxation by excluding fair value changes on interest in property development and investment properties, finance costs and head office and corporate income/expenses.

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

3 Segment reporting *(Continued)*

(a) Disaggregation of revenue

Continuing operations

| | Six months ended 30 June | |
|--|--------------------------|------------------------------|
| | 2021 \$'000 | 2020 \$'000 (restated) |
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Sale of properties | 266,574 | 2,933,754 |
| Property management service income | 207,717 | 196,304 |
| Others | 52,724 | 85,399 |
| | 527,015 | 3,215,457 |
| Revenue from other sources: | | |
| Distribution from interest in property development | 220,000 | – |
| Rental income | 151,170 | 139,068 |
| Others | 97,438 | 85,040 |
| | 995,623 | 3,439,565 |

Discontinued operations

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2021 \$'000 | 2020 \$'000 |
| Revenue from contracts with customers within the scope of HKFRS 15: | | |
| Sale of crude oil | – | 11,154 |
| Others | – | 137 |
| | – | 11,291 |
| Revenue from other source: | | |
| Distribution from interests in property development | – | 280,000 |
| | – | 291,291 |

3 Segment reporting *(Continued)*

(b) Segment results and assets

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

| | Six months ended 30 June 2021 | | | | |
|--|-------------------------------|-----------|----------------|---------------------|-----------------------------|
| | Property development | | | Property investment | Others <i>(Remark 1)</i> |
| | Total | Hong Kong | Mainland China | | |
| \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| Revenue | 995,623 | 217,655 | 268,919 | 151,170 | 357,879 |
| Reportable segment profit | 422,792 | 67,290 | 181,061 | 123,698 | 50,743 |
| Fair value changes on investment properties | 255,908 | – | – | 255,908 | – |
| Fair value changes on interest in property development | 51,028 | – | 51,028 | – | – |
| Head office and corporate expenses | (31,503) | | | | |
| Finance costs | (18,337) | | | | |
| Profit before taxation | 679,888 | | | | |
| Share of losses of associated companies | (5,344) | – | (5,344) | – | – |
| Share of losses of a joint venture | (13,286) | – | (13,286) | – | – |

Remark 1:

Others included revenue from property management services of \$207,717,000 (six months ended 30 June 2020: \$196,304,000) and the relevant segment profit of \$7,211,000 (six months ended 30 June 2020: \$2,515,000).

Notes to the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

3 Segment reporting *(Continued)*

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

| | Six months ended 30 June 2020 (restated) | | | | | | | | |
|---|--|-----------|-----------|----------------|---------------------|-----------------------------|-------------------------|-----------|----------|
| | Continuing operations | | | | | | Discontinued operations | | |
| | Property development | | | | | | Property development | | |
| | Total | Sub-total | Hong Kong | Mainland China | Property investment | Others <i>(Remark 1)</i> | Sub-total | Macau | Oil |
| \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | |
| Revenue | 3,730,856 | 3,439,565 | 2,528,261 | 405,493 | 139,068 | 366,743 | 291,291 | 280,000 | 11,291 |
| Reportable segment profit/(loss) | 1,448,577 | 1,236,972 | 987,327 | 15,383 | 155,532 | 78,730 | 211,605 | 283,795 | (72,190) |
| Fair value changes on investment properties | (331,022) | (331,022) | - | - | (331,022) | - | - | - | - |
| Fair value changes on interests in property development | (125,824) | 8,659 | - | 8,659 | - | - | (134,483) | (134,483) | - |
| Share of fair value changes on investment properties of a joint venture | (22,634) | (22,634) | - | - | (22,634) | - | - | - | - |
| Head office and corporate expenses | (84,483) | (84,483) | - | - | - | - | - | - | - |
| Finance costs | (95,508) | (95,508) | - | - | - | - | - | - | - |
| Profit before taxation | 789,106 | 711,984 | - | - | - | - | 77,122 | - | - |
| Share of profits of associated companies | 9,333 | 9,333 | - | 9,333 | - | - | - | - | - |
| Share of profits of joint ventures | 19,862 | 19,862 | - | 7,677 | 12,185 | - | - | - | - |
| Impairment of oil production and exploitation assets | (59,463) | - | - | - | - | - | (59,463) | - | (59,463) |

3 Segment reporting (Continued)

(b) Segment results and assets (Continued)

| | At 30 June 2021 | | | | |
|--|---------------------|----------------------|-------------------|---------------------|----------------------|
| | Total | Property development | | Property investment | Others (Remark 2) |
| | | Hong Kong | Mainland China | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Reportable segment assets | 34,606,137 | 6,617,039 | 15,489,591 | 10,180,916 | 2,318,591 |
| Deferred tax assets | 37,501 | | | | |
| Cash and bank balances | 2,427,299 | | | | |
| Head office and corporate assets | 91,491 | | | | |
| Total assets | 37,162,428 | | | | |
| Interest in associated companies | 1,501,406 | – | 1,499,865 | – | 1,541 |
| Interest in and amount due from a joint venture | 2,189,242 | – | 2,189,242 | – | – |
| | At 31 December 2020 | | | | |
| | Total | Property development | | Property investment | Others (Remark 2) |
| | | Hong Kong | Mainland China | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Reportable segment assets | 32,836,459 | 6,211,195 | 14,775,842 | 9,884,136 | 1,965,286 |
| Deferred tax assets | 37,409 | | | | |
| Cash and bank balances | 1,133,841 | | | | |
| Head office and corporate assets | 96,768 | | | | |
| Total assets | 34,104,477 | | | | |
| Interest in associated companies | 1,527,988 | – | 1,526,447 | – | 1,541 |
| Interest in and amount due from a joint venture | 2,180,535 | – | 2,180,535 | – | – |

Remark 2:

Others included reportable segment assets of property management services amounting to \$114,108,000 (31 December 2020: \$103,627,000).

4 Discontinued operations

On 19 August 2020, the Board of Directors declared a special dividend that was satisfied by way of distribution in specie of the shares in PAH held by the Group to the shareholders of the Company. Details of the distribution in specie are disclosed in note 8(a).

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

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

The results of discontinued operations are as follows:

| | Six months ended 30 June 2020 \$'000 |
|---|---|
| Revenue | 291,291 |
| Cost of sales | (14,789) |
| Other revenue | 4,815 |
| Depreciation and amortisation | (127) |
| Staff costs | (5,259) |
| Selling, marketing and distribution expenses | (2,251) |
| Impairment of oil production and exploitation assets | (59,463) |
| Other operating expenses | (2,612) |
| Fair value changes on interests in property development | (134,483) |
| Profit before taxation | 77,122 |
| Income tax | (4,317) |
| Profit for the period from discontinued operations | 72,805 |
| Attributable to: | |
| Shareholders of the Company | 51,539 |
| Non-controlling interests | 21,266 |
| | 72,805 |

5 Profit before taxation from continuing operations

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

- (a) Other net expenses mainly represent the provision for loss allowance of debt investments of \$41,316,000 (six months ended 30 June 2020: \$7,077,000).

(b) **Finance costs**

| | Six months ended 30 June | |
|--|--------------------------|-----------|
| | 2021 | 2020 |
| | \$'000 | \$'000 |
| Interest on bank loans | 112,007 | 189,306 |
| Interest on loans from a related company | 3,183 | 17,861 |
| Less: Amount capitalised (<i>Remark</i>) | (96,853) | (111,659) |
| | 18,337 | 95,508 |

Remark: Borrowing costs were capitalised at rates of 1.02% – 5.70% (six months ended 30 June 2020: 1.79% – 5.70%) per annum.

(c) **Other items**

| | Six months ended 30 June | |
|--|--------------------------|------------|
| | 2021 | 2020 |
| | \$'000 | \$'000 |
| | | (restated) |
| Rentals receivable under operating leases less outgoings | (126,606) | (114,106) |
| Rental income | (151,170) | (139,068) |
| Less: Outgoings | 24,564 | 24,962 |
| Depreciation and amortisation | 11,527 | 15,056 |
| Interest income | (97,438) | (85,040) |

6 Income tax

Taxation from continuing operations in the consolidated income statement represents:

| | Six months ended 30 June | |
|-------------------------------|--------------------------|------------------------------|
| | 2021 \$'000 | 2020 \$'000 (restated) |
| Current tax | | |
| Provision for Profits Tax | | |
| – Hong Kong | 39,253 | 169,420 |
| – Outside Hong Kong | 958 | (1,438) |
| Land appreciation tax ("LAT") | 40,211 | 167,982 |
| Deferred tax | 100 | – |
| | 17,226 | 18,133 |
| | 57,537 | 186,115 |

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2020: 16.5%) of the estimated assessable profits for the six months ended 30 June 2021. 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.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share are based on the profit attributable to shareholders of the Company arising from continuing operations and discontinued operations of \$619,289,000 (six months ended 30 June 2020: \$523,830,000) and Nil (six months ended 30 June 2020: \$51,539,000) respectively and the weighted average number of ordinary shares in issue during the period of 1,176,631,296 (six months ended 30 June 2020: 1,176,631,296).

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2021 and 2020.

8 Dividends

(a) Dividends attributable to the interim period

| | Six months ended 30 June | |
|---|--------------------------|---------|
| | 2021 | 2020 |
| | \$'000 | \$'000 |
| Interim dividend declared after the interim period of \$0.25 (six months ended 30 June 2020: \$0.24) per share | 294,158 | 282,392 |

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

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 | |
|---|--------------------------|---------|
| | 2021 | 2020 |
| | \$'000 | \$'000 |
| Final dividend in respect of the previous financial year, approved during the interim period, of \$0.56 (six months ended 30 June 2020: \$0.54) per share | 658,914 | 635,381 |

9 Investment properties

The investment properties of the Group were revalued at 30 June 2021 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has relevant qualifications and experience in the valuation of similar properties in the relevant locations. The Group's investment properties are revalued semi-annually by using the income capitalisation approach with reference to comparable sales transactions as available in the market. The Group's investment properties under development are revalued semi-annually by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, and then deducting the estimated cost to complete the construction.

A revaluation gain of \$255,908,000 (six months ended 30 June 2020: revaluation loss of \$331,022,000) was recognised in profit or loss during the six months ended 30 June 2021.

10 Interest in property development

Interest in property development represents the Group's interest in the development property located at Huizhou, in Mainland China under co-investment agreement with a related company, Polytec Holdings International Limited ("Polytec Holdings"). Details of the funding arrangement and other key terms of the co-investment agreement were disclosed in the Company's Circular dated 30 October 2013.

During the six months ended 30 June 2021, pursuant to the co-investment agreement, distribution of \$220,000,000 was made by Polytec Holdings to the Group, in relation to the property development project at Huizhou (six months ended 30 June 2020: \$280,000,000 was made by a wholly owned subsidiary of Polytec Holdings, in relation to the property development project in Macau) is recognised in profit or loss.

As at 30 June 2021, the amount due from a related company of \$220,000,000 (31 December 2020: Nil) was arisen from the distribution received from the interest in property development. The amount was unsecured, interest-free and subsequently settled against the loan from a related company in August 2021.

11 Other financial assets

| | At 30 June 2021 \$'000 | At 31 December 2020 \$'000 |
|--|------------------------------|----------------------------------|
| Non-current | | |
| Debt investments measured at amortised cost | | |
| Listed debt securities outside Hong Kong | 1,330,828 | 916,503 |
| Current | | |
| Equity investments measured at fair value through profit or loss | | |
| Listed equity securities in Hong Kong | 26,215 | 31,772 |
| Unlisted investment fund | 77,788 | 73,899 |
| | 104,003 | 105,671 |
| Total | 1,434,831 | 1,022,174 |
| Market value of listed debt securities | 1,279,291 | 929,551 |

12 Inventories

| | At 30 June 2021 \$'000 | At 31 December 2020 \$'000 |
|---|------------------------------|----------------------------------|
| Land and properties held for future development | 5,585,821 | 5,394,686 |
| Properties under development | 9,064,773 | 8,348,886 |
| Properties held for sale | 1,162,288 | 1,293,661 |
| Trading goods and consumables | 3,986 | 3,383 |
| | 15,816,868 | 15,040,616 |

The amount of land and properties held for future development and properties under development expected to be recovered after more than one year is \$5,585,821,000 (31 December 2020: \$5,394,686,000) and \$6,057,983,000 (31 December 2020: \$8,348,886,000) respectively. All of the other inventories are expected to be recovered within one year.

13 Trade and other receivables/Loans and advances

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

| | At 30 June 2021 \$'000 | At 31 December 2020 \$'000 |
|--|------------------------------|----------------------------------|
| Current | 682,406 | 734,786 |
| Within 3 months | 25,447 | 37,076 |
| 3 months to 6 months | 4,500 | 5,587 |
| More than 6 months | 12,979 | 7,943 |
| Trade receivables and loans and advances | 725,332 | 785,392 |
| Utility and other deposits | 20,755 | 21,749 |
| Prepaid tax | 91,252 | 88,745 |
| Other receivables and prepayments | 390,950 | 303,098 |
| | 1,228,289 | 1,198,984 |
| Representing: | | |
| Non-current assets | 529,664 | 601,644 |
| Current assets | 698,625 | 597,340 |
| | 1,228,289 | 1,198,984 |

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

Utility and other deposits of the Group of \$8,040,000 (31 December 2020: \$7,599,000) are expected to be recovered after more than one year.

Receivables and prepayments of the Group of \$155,829,000 (31 December 2020: \$122,399,000) are expected to be recovered after more than one year.

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

14 Trade and other payables

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

| | At 30 June 2021 \$'000 | At 31 December 2020 \$'000 |
|--|------------------------------|----------------------------------|
| Not yet due or on demand | 1,597,396 | 1,792,205 |
| Within 3 months | 1,588 | 1,923 |
| 3 months to 6 months | 113 | – |
| More than 6 months | – | 9 |
| Trade payables | 1,599,097 | 1,794,137 |
| Rental and other deposits | 71,034 | 72,759 |
| Other payables and accrued expenses | 277,852 | 300,661 |
| Contract liabilities – deposits received on sale of properties | 295,319 | 236,085 |
| | 2,243,302 | 2,403,642 |

15 Loan from a related company

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

16 Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

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

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

| | At 30 June 2021 \$'000 | At 31 December 2020 \$'000 |
|---|------------------------------|----------------------------------|
| Assets | | |
| Level 1 | | |
| Other financial assets | | |
| – Listed equity securities in Hong Kong | 26,215 | 31,772 |
| Level 2 | | |
| Other financial assets | | |
| – Unlisted investment fund | 77,788 | 73,899 |
| Level 3 | | |
| Interest in property development | 1,862,799 | 1,811,771 |

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2020: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted investment fund was determined with reference to the fair value of underlying investment portfolio and adjustments of related transaction costs.

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

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

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

| | 2021 \$'000 | 2020 \$'000 |
|--|--------------------|----------------|
| At 1 January | 1,811,771 | 14,053,523 |
| Distribution | (220,000) | (280,000) |
| Changes in fair value recognised in profit or loss | 271,028 | 398,394 |
| Net changes in fair value | | |
| – continuing operations | 51,028 | 31,741 |
| – discontinued operations | – | 86,653 |
| Distribution in specie | – | (12,360,146) |
| At 30 June/31 December | \$1,862,799 | \$1,811,771 |

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

The Group has a team reporting to the top management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the top management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the model of a development project at Huizhou in Mainland China includes estimated selling prices of the underlying property which are derived from observable market data, including average market prices of residential properties in Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the average market selling price range from –10% to +10%.

The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. As at 30 June 2021, it is estimated that an increase/decrease of 5% in the expected/forecasted selling price of the underlying property at Huizhou of the Group's interests in property development, with all other variables held constant, would have increased/decreased the Group's retained earnings by \$34,103,000/\$34,101,000 (31 December 2020: \$48,608,000/\$48,607,000).

17 Capital commitments

Capital commitments outstanding at the end of the reporting period contracted but not provided for in the financial statements amounted to \$21,955,000 (31 December 2020: \$21,955,000).

18 Contingent liabilities

As at 30 June 2021, the Group had given guarantees to financial institutions in respect of performance bonds entered into by a subsidiary to the extent of \$36,032,000 (31 December 2020: \$26,373,000).

19 Pledge of assets

As at 30 June 2021, properties having a value of approximately \$14,551,622,000 (31 December 2020: \$13,690,413,000) and deposits of \$15,325,000 (31 December 2020: \$13,692,000) were pledged to banks and insurance companies mainly to secure general banking facilities and performance bonds granted to the Group.

20 Material related party transactions

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

- (a) As at 30 June 2021, certain bank loans were secured by properties and shares of subsidiaries of Polytec Holdings having a total value of \$3,007,000,000 (31 December 2020: \$3,007,000,000) and guaranteed by these subsidiaries.
- (b) As at 30 June 2021, loans to a joint venture of \$219,500,000 (31 December 2020: \$219,500,000) are unsecured, interest bearing at fixed rates and were not expected to be repaid within one year. During the six months ended 30 June 2021, interest income of \$Nil (six months ended 30 June 2020: \$14,815,000) was recognised in profit or loss. As at 30 June 2021, the amount due from a joint venture of \$112,883,000 (31 December 2020: \$112,883,000) and the amount due to a joint venture of \$482,527,000 (31 December 2020: \$477,046,000) were unsecured, interest-free and recoverable/repayable on demand.
- (c) As at 30 June 2021, loan to an associated company of \$270,706,000 (31 December 2020: \$305,449,000) was unsecured, interest bearing at a rate determined by the shareholders and was not expected to be repaid within one year. During the six months ended 30 June 2021, interest income of \$553,000 (six months ended 30 June 2020: \$1,077,000) was recognised in profit or loss and included in the share of (losses)/profits of associated companies. As at 30 June 2021, accumulated accrued interest income of approximately RMB1,121,000,000 (31 December 2020: RMB1,091,000,000) due from an associated company had not been recognised as the Group considered it was not probable that the economic benefits will flow to the Group as at the end of the reporting period. During the six months ended 30 June 2021, the Group had received repayment of a loan to an associated company and related interest income amounting to \$38,548,000 (six months ended 30 June 2020: \$56,441,000) through a related company and use to partially settle a loan from a related company.
- (d) As at 30 June 2021, properties with an aggregate value of \$1,118,009,000 (31 December 2020: \$1,118,009,000) were held on trust by the subsidiaries of Polytec Holdings.

21 Comparative changes

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

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2021, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with the exception of Code Provision A.2.1 as explained below:

Code Provision A.2.1

Mr Or Wai Sheun has performed the combined role as the chairman of the Board and the chief executive taking charge of the overall operations of the Group. The reason for deviation from the code provision was disclosed in the Annual Report 2020.

SECURITIES TRADING POLICY

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

CHANGES IN INFORMATION OF DIRECTORS

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

1. Mr Or Wai Sheun, the Chairman and an Executive Director of the Company, has also been the chairman and an executive director of Polytec Asset Holdings Limited ("Polytec Asset") since 1 April 2006 which withdrew the listing of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4:00 pm (Hong Kong time) on 25 May 2021.
2. Mr Lai Ka Fai, an Executive Director of the Company, has also been a non-executive director of Polytec Asset since 8 January 2002 which withdrew the listing of its shares on the Stock Exchange with effect from 4:00 pm (Hong Kong time) on 25 May 2021.
3. Mr Yeung Kwok Kwong, a Non-executive Director of the Company, has also been the managing director of Polytec Asset since 1 September 2000 which withdrew the listing of its shares on the Stock Exchange with effect from 4:00 pm (Hong Kong time) on 25 May 2021.
4. The monthly salary of the following Directors has been adjusted since 1 July 2021 and details are set out below:

| | 1 January 2021 to 30 June 2021 | From 1 July 2021 |
|-----------------|-----------------------------------|------------------|
| Mr Or Pui Kwan | HK\$97,600 | HK\$101,000 |
| Mr Lam Yung Hei | HK\$97,600 | HK\$101,000 |
| Mr Lai Ka Fai | HK\$189,500 | HK\$196,100 |

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 2021, 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 2021.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2021, the interests of the Directors in the shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

Long positions in the shares of the Company

| Name | Nature of interest | Number of ordinary shares | Percentage of shareholding (Note 1) | Note |
|-------------------------|-----------------------------------|---------------------------|-------------------------------------|------|
| Mr Or Wai Sheun | Corporate | 831,047,624 | 70.63% | 2 |
| Mr Lok Kung Chin, Hardy | Founder and beneficiary of trusts | 1,425,000 | 0.12% | 3 |
| Mr Lai Ka Fai | Personal | 751,000 | 0.06% | |
| Mr David John Shaw | Personal | 200,500 | 0.02% | |
| Mr Yeung Kwok Kwong | Personal | 180,000 | 0.02% | |
| Mr Or Pui Kwan | Personal | 43,500 | 0.00% | |

Notes:

- (1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 30 June 2021.
- (2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of New Explorer Developments Limited which is wholly-owned by Mr Or Wai Sheun.
- (3) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.

Save as disclosed above, as at 30 June 2021, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDER'S INTEREST

As at 30 June 2021, the shareholder (other than Directors and the chief executives of the Company) who had interest or short position in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO is set out below:

| Name | Nature of interest | Number of ordinary shares | Percentage of shareholding (Note 1) | Note |
|-----------------------------------|--------------------|---------------------------|--|------|
| New Explorer Developments Limited | Corporate | 831,047,624 | 70.63% | 2 |

Notes:

- (1) The percentage of shareholding is calculated based on 1,176,631,296 shares, being the total number of issued ordinary shares of the Company as at 30 June 2021.
- (2) Such interest in shares is held by Intellinsight as described in note (2) under the section headed "Directors' Interests and Short Positions".

The interest disclosed above represents long position in the shares of the Company.

Save as disclosed above, as at 30 June 2021, 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 2021, the Group had a total of 2,683 employees (31 December 2020: 2,906 employees), of which 2,547 were Hong Kong staff and 136 were Mainland China staff. During the period, total staff costs decreased to HK\$298 million (30 June 2020: HK\$328 million). Salary levels of employees are competitive. Discretionary bonuses are granted based on the performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

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

In addition, the Group established a recreation club which organises events for employees to promote team spirit and loyalty and encourage communication among departments.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 15 November 2021 to Tuesday, 16 November 2021, both dates inclusive. During the aforementioned 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 (Hong Kong time) on Friday, 12 November 2021.

REVIEW OF INTERIM FINANCIAL REPORT

The Audit Committee of the Company has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2021. The Group's independent auditor, KPMG, Certified Public Accountants, has conducted a review of the interim financial report in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants, whose review report is contained on page 10 of this interim report.



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