POLYTEC ASSET HOLDINGS LIMITED

保利達資產控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 208)

2020 INTERIM RESULTS ANNOUNCEMENT

HIGHLIGHTS

- The Group's unaudited net profit attributable to equity shareholders of the Company for the first half of 2020 fell to HK$73.8 million from HK$711.4 million, a decrease of 89.6% as compared to the corresponding period in 2019.

- Excluding revaluation changes from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for the first half of 2020 rose to HK$230.9 million from HK$210.5 million, an increase of 9.7% compared to the same period of 2019. The underlying net interim earnings per share for 2020 was 5.20 HK cents compared to the underlying net interim earnings per share of 4.74 HK cents in 2019.

- Interim dividend per share for 2020 amounted to 1.40 HK cents (2019: 1.30 HK cents).

INTERIM RESULTS AND DIVIDENDS

For the six months ended 30 June 2020, the unaudited net profit attributable to equity shareholders of the Company and its subsidiaries (collectively the "Group") fell to HK$73.8 million from HK$711.4 million, a decrease of 89.6% as compared to the corresponding period in 2019. The interim earnings per share for 2020 amounted to 1.66 HK cents compared to 16.03 HK cents in 2019.

Excluding revaluation changes from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for the first six months of 2020 rose to HK$230.9 million from HK$210.5 million, an increase of 9.7% compared to the same period of 2019. The underlying net interim earnings per share for 2020 was 5.20 HK cents compared to the underlying net interim earnings per share of 4.74 HK cents in 2019.

The Board of Directors has declared an interim dividend per share for 2020 of 1.40 HK cents (2019: 1.30 HK cents). The interim dividend will be payable to shareholders on Friday, 30 October 2020. Further announcement in relation to the corresponding period for closure of register of members for the distribution of interim dividend will be made by the Company in due course.

BUSINESS REVIEW

For the six months ended 30 June 2020, the unaudited net profit attributable to equity shareholders of the Company fell to HK$73.8 million, a decrease of 89.6% compared to the corresponding period in 2019. The decrease was mainly due to the decline in the amount of the fair value changes on the interests in property development held by the Group in respect of the La Marina development project in Macau, owing to the decline in the overall property price in Macau during the period of the coronavirus pandemic, as well as a full write-off of the remaining value of the oil production and exploitation assets at the Group's South Alibek Oilfield in Kazakhstan, in view of the weak global demand for oil and relatively low oil prices in the short- to medium-term.

Excluding revaluation changes from the joint venture's investment properties net of tax and fair value changes on its interests in the property development projects, the Group's underlying net profit attributable to equity shareholders of the Company for the period under review rose to HK$230.9 million, an increase of 9.7% compared to the same period of 2019.

Property Development

Macau

In respect of the La Marina development project, the Group received net income distributions of HK$280 million for its interest in this development project for the period under review.

In respect of the Pearl Horizon development project, an unfavorable judgment was issued by the Administrative Court on 30 March 2020 for the claim submitted by Polytex Corporation Limited to the Court of Macau on 29 November 2018 to seek compensations from the Macau Government for related losses and damages. With regard to this, a petition for appeal was submitted to the Court of Second Instance in Macau on 29 May 2020.

Mainland China

In regards to the Zhongshan property development project, site drainage work is well underway. The overall planning and design work for the project has already commenced.

As one of the conditions precedent to its sale and purchase agreement of Zhuhai property development project was not satisfied, the acquisition was terminated in January 2020.

Property Investment

For the period under review, the Group's share of gross rental income generated from the joint venture's investment properties rose to HK$42.4 million from HK$41.4 million in the corresponding period in 2019. The rental income was mainly generated from The Macau Square, the Group's 50%-owned investment property in Macau, with its share of total rental income of the property amounting to HK$39.0 million for the first half of 2020 as compared to HK$38.3 million for the same period in 2019.

Oil

The oil segment recorded a loss after tax of HK$76.4 million for the six months ended 30 June 2020, compared to a loss of HK$11.3 million over the same period in 2019. The increase in the loss was mainly due to the significant decline in international oil prices for the period under review and an impairment loss of HK$63.3 million made for the Group's oil production and exploitation assets in Kazakhstan (with the change in its related tax being included). While the Brent oil price has currently rebounded to around US$40 per barrel from its historic lows (below US$20 per barrel) at the beginning of 2020, it is generally expected that international oil prices are unlikely to rise significantly in the short- to medium-term and a full write-off was therefore made for the remaining value of the Group's oil assets in Kazakhstan in the first half of 2020.

Ice Manufacturing and Cold Storage

For the period under review, the total operating profit for the ice manufacturing and cold storage segment amounted to HK$11.6 million, an increase of HK$3.2 million over the corresponding period in 2019.

Financial Investments

The net income generated from financial investment activities amounted to HK$19.9 million for the six months ended 30 June 2020.

PROSPECTS

Looking back over the first half of 2020, the coronavirus has been spreading around the world and the outbreak in many countries have not yet been contained until now, having severely affected the global economy. The Group's oil business has been inevitably hit hard by the major suspension of world economic activities and it is not expected to recover in the short term. Therefore the Group will plan to terminate the oilfield operation in Kazakhstan. As the Group has fully written off the remaining value of its oil assets, this segment will no longer have significant impact on the Group's overall results for the coming years.

In Macau, due to the outbreak of the coronavirus, the Group has provided some rent concession measures to certain tenants to ease their financial burden during these difficult times. As the outbreak in Macau seems to be largely under control, the rental income generated from the Group's investment properties in Macau is expected to have only little impact in the second half of 2020. In Hong Kong, with the recent local spread of the coronavirus picking up speed again, the performance of the Group's ice and cold storage business will likely to be adversely affected.

The Group commenced its financial investment activities in the second half of 2019, focusing mainly on some appealing fixed-income investments in order to balance its risks and returns. The net income generated from financial investment activities in the first half of 2020 was satisfactory. As there are still uncertainties over the pandemic as well as the international trade tensions, the Group will closely monitor the global financial market development and may increase investments, mainly in bonds, when appropriate.

The basic infrastructure work for the Zhongshan property development project is underway. As the coronavirus outbreak in China has gradually been contained, the Group will continue to explore good property development projects in the Greater Bay Area aiming to lay a solid foundation for the Group's future development.

The coronavirus pandemic is expected to last for a period of time and therefore the economy will unlikely recover any time soon. Looking ahead to the second half of 2020, the Group is not optimistic about the significant improvement in the business environment as the impact of the pandemic on the various businesses is still uncertain. Therefore, the Group will be particularly cautious about its business operations and decision-making during this critical time but will not stop actively seeking good investment opportunities.

The income to be received from the Group's interest in the La Marina development project in Macau is expected to make an important contribution to the Group's results in the second half of 2020.

Finally, I would like to express my sincere gratitude to my fellow directors for their strategic planning and the dedication of all the staff of the Group.

INTERIM RESULTS

The unaudited consolidated results of the Group for the six months ended 30 June 2020 together with the comparative figures of 2019 are as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**Six months ended 30 June** **2020** ***HK$'000*** **(unaudited)**	2019 *HK$'000* (unaudited)
Revenue	*3*	**366,256**	295,467
Cost of sales		**(24,150)**	(26,521)
Gross profit		**342,106**	268,946
Other income		**23,931**	4,933
Selling and distribution expenses		**(11,180)**	(17,490)
Administrative expenses		**(17,731)**	(18,775)
Other operating expenses		**(27,751)**	(26,295)
Impairment of oil production and exploitation assets		**(59,463)**	-
Fair value changes on interests in property development		**(134,483)**	491,709
Profit from operations		**115,429**	703,028
Finance costs	*4*	**(32,245)**	(32,226)
Share of profits less losses of joint ventures		**(3,490)**	42,943
Profit before taxation	*5*	**79,694**	713,745
Income tax	*6*	**(4,673)**	(1,230)
Profit for the period		**75,021**	712,515
Attributable to:			
Equity shareholders of the Company		**73,797**	711,419
Non-controlling interests		**1,224**	1,096
Profit for the period		**75,021**	712,515
Earnings per share — basic and diluted	*7*	**1.66 HK cents**	16.03 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period	**75,021**	712,515
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	**(6,875)**	-
Share of other comprehensive income of joint ventures	**(24,282)**	(3,891)
	(31,157)	(3,891)
Total comprehensive income for the period	**43,864**	708,624
Attributable to:		
Equity shareholders of the Company	**42,640**	707,528
Non-controlling interests	**1,224**	1,096
Total comprehensive income for the period	**43,864**	708,624

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**At 30 June 2020** ***HK$'000*** **(unaudited)**	At 31 December 2019 *HK$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**104,261**	166,182
Oil exploitation assets	*9*	**-**	6,001
Interests in property development	*10*	**10,392,267**	10,826,000
Interest in joint ventures		**2,632,521**	2,694,327
Other financial assets		**417,764**	161,050
Deferred tax assets		**-**	3,800
Goodwill		**16,994**	16,994
		13,563,807	13,874,354
Current assets			
Interests in property development	*10*	**1,746,743**	1,447,493
Amount due from a related company		**280,000**	500,000
Amounts due from joint ventures		**231,078**	203,121
Other financial assets		**26,257**	15,418
Inventories		**85,125**	82,443
Trade and other receivables	*11*	**45,635**	213,220
Cash and bank balances		**397,531**	424,214
		2,812,369	2,885,909
Current liabilities			
Trade and other payables	*12*	**54,349**	63,866
Bank loans		**98,500**	78,500
Current taxation		**50,929**	52,420
		203,778	194,786
Net current assets		**2,608,591**	2,691,123
Total assets less current liabilities		**16,172,398**	16,565,477

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*continued*)

	Note	**At 30 June 2020** ***HK$'000*** **(unaudited)**	At 31 December 2019 *HK$'000* (audited)
Non-current liabilities			
Amount due to a related company		**-**	1,104,364
Amount due to a fellow subsidiary		**557,240**	-
Other payables		**17,422**	17,688
Bank loans		**1,798,000**	1,418,000
Deferred tax liabilities		**15,367**	15,632
		2,388,029	2,555,684
NET ASSETS		**13,784,369**	14,009,793
CAPITAL AND RESERVES			
Share capital		**443,897**	443,897
Reserves		**13,328,539**	13,552,237
Total equity attributable to equity shareholders of the Company		**13,772,436**	13,996,134
Non-controlling interests		**11,933**	13,659
TOTAL EQUITY		**13,784,369**	14,009,793

Notes:

1. BASIS OF PREPARATION

The unaudited interim financial statements have 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 statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of interim financial statements 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.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("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. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are property investment and development, oil exploration and production, manufacturing of ice, provision of cold storage services and financial investments.

Disaggregation of revenue

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Under the scope of HKFRS 15, *Revenue from contracts with customers*:		
Sale of crude oil	**11,154**	26,039
Sale of goods	**33,366**	32,114
Service income	**16,276**	17,314
	60,796	75,467
Revenue from other sources:		
Distribution from interests in property development	**280,000**	220,000
Interest income from debt investments	**25,460**	-
	366,256	295,467

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

The Group manages its businesses by segments which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified four (six months ended 30 June 2019: three) operating segments for the period which comprise property investment, trading and development related activities and interests in property development ("Properties"), oil exploration and production related activities ("Oil"), manufacturing of ice and provision of cold storage and related services ("Ice and cold storage") and financial investments on equity and debt securities ("Financial investments").

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment but exclude exceptional items.

Reportable segment result represents result before taxation by excluding fair value changes on interests in property development, share of profits less losses of joint ventures, finance costs and head office and corporate expenses.

Segment assets include all tangible, intangible assets and current assets with exception of interest in joint ventures, deferred tax assets and other corporate assets.

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

	Six months ended 30 June 2020				
	Properties *HK$'000*	**Oil** *HK$'000*	**Ice and cold storage** *HK$'000*	**Financial investments** *HK$'000*	**Total** *HK$'000*
Revenue	**280,000**	**11,291**	**49,505**	**25,460**	**366,256**
Reportable segment result	**297,817**	**(72,190)**	**11,607**	**19,883**	**257,117**
Fair value changes on interests in property development	**(134,483)**	**-**	**-**	**-**	**(134,483)**
Head office and corporate expenses					**(7,205)**
Profit from operations					**115,429**
Finance costs					**(32,245)**
Share of profits less losses of joint ventures	**(3,490)**	**-**	**-**	**-**	**(3,490)**
Profit before taxation					**79,694**

	At 30 June 2020				
	Properties *HK$'000*	**Oil** *HK$'000*	**Ice and cold storage** *HK$'000*	**Financial investments** *HK$'000*	**Total** *HK$'000*
Reportable segment assets	**12,496,657**	**19,146**	**141,575**	**447,817**	**13,105,195**
Interest in and amounts due from joint ventures	**2,863,599**	**-**	**-**	**-**	**2,863,599**
Head office and corporate assets					**407,382**
					16,376,176

3. REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

	Six months ended 30 June 2019			
	Properties	Oil	Ice and cold storage	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	220,000	26,183	49,284	295,467
Reportable segment result	222,996	(10,343)	8,439	221,092
Fair value changes on interests in property development	491,709	-	-	491,709
Head office and corporate expenses				(9,773)
Profit from operations				703,028
Finance costs				(32,226)
Share of profits less losses of joint ventures	42,943	-	-	42,943
Profit before taxation				713,745

	At 31 December 2019				
	Properties	Oil	Ice and cold storage	Financial investments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	13,012,764	95,051	135,805	177,147	13,420,767
Interest in and amounts due from joint ventures	2,897,448	-	-	-	2,897,448
Deferred tax assets					3,800
Head office and corporate assets					438,248
					16,760,263

4. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interest expense on		
– Bank loans	**26,299**	20,816
– Amount due to immediate holding company	**-**	10,965
– Amounts due to related companies	**4,290**	13
– Amount due to a fellow subsidiary	**1,218**	-
	31,807	31,794
Other finance costs	**438**	432
	32,245	32,226

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Depreciation and amortisation#	**12,397**	11,713

Cost of sales includes HK$9,339,000 (six months ended 30 June 2019: HK$8,521,000) relating to depreciation and amortisation expenses.

6. INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**620**	305
– Income tax outside Hong Kong	**518**	1,040
	1,138	1,345
Deferred tax	**3,535**	(115)
	4,673	1,230

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2019: 16.5%) of the estimated assessable profits for the six months ended 30 June 2020. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$73,797,000 (six months ended 30 June 2019: HK$711,419,000) and 4,438,967,838 (six months ended 30 June 2019: 4,438,967,838) ordinary shares in issue during the period.

(b) Diluted earnings per share

There were no dilutive potential shares in existence during the six months ended 30 June 2020 and 2019.

8. DIVIDENDS

	Six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK$0.014 (six months ended 30 June 2019: HK$0.013) per share	**62,146**	57,707

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

9. OIL PRODUCTION ASSETS AND OIL EXPLOITATION ASSETS

As at 30 June 2020, the oil production assets (included in property, plant and equipment) and oil exploitation assets were fully depreciated and impaired (31 December 2019: net book values of HK$60,705,000 and HK$6,001,000 respectively). Oil production assets and oil exploitation assets are stated at cost less accumulated depreciation/amortisation and impairment losses.

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which are considered to be the higher of the fair value less costs of disposal and value in use. A discounted cash flow model was adopted consistently as previous years which was prepared by the experienced technical and professional team of the Group and reviewed by the Directors of the Company although no independent valuation report was produced. Discounted cash flow model is a commonly used valuation method for oil companies worldwide to determine the recoverable amount of the oil production and exploitation assets during the oil production stage. Under the discounted cash flow model, the recoverable amount of oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. Determination as to whether and how much an asset is impaired involves management judgements in estimating future crude oil prices, the discount rate used in discounting the projected cash flows and the production profile, etc. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and that all relevant licences and permits are obtained. However, the business environment including the crude oil price is affected by a wide range of global and domestic factors which are all beyond the control of the Group. Any adverse changes in the key assumptions could increase the impairment provision.

The gas flaring permit allowing flaring of associated gas necessary for conducting normal crude oil production in the South Alibek Oilfield of Caspi Neft TME, a wholly-owned subsidiary of the Company in Kazakhstan will expire on 31 December 2020. As construction of the pipes to the gas processing plant for processing the associated gas was completed by Caspi Neft TME by the end of 2019, the historic issue regarding the treatment and utilisation of associated gas had been solved permanently. As a result, the Group considers that the gas flaring permit could be successfully renewed yearly in future.

9. OIL PRODUCTION ASSETS AND OIL EXPLOITATION ASSETS *(continued)*

As at 30 June 2020, management reassessed the operation and the risk exposures of the Group's oil exploration and production business as a whole and whether the carrying values of the oil production and exploitation assets exceeded the estimated recoverable amounts. 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 2019: 12.5%) consistently adopted by the Group, which was within the normal range of the discount rates commonly used in the discounted cash flow models by the oil companies in Kazakhstan. Based on the assessment, the carrying values of the oil production and exploitation assets exceeded their recoverable amounts by HK$59,463,000 as at 30 June 2020 (31 December 2019: HK$231,573,000) which was mainly due to the declining crude oil price forecast. The forecast future crude oil prices as at 30 June 2020 obtained from the Oil Price Forecast of Bloomberg, an independent and internationally reliable source, were found to have dropped as compared to those at 31 December 2019 (30 June 2020: US$39.02 – US$71.47 per barrel; 31 December 2019: US$61.79 – US$74.01 per barrel). In this regard, the future revenue and cash inflow generated therefrom would be decreased and hence the net present value of the estimated future cash flows arising from the oil production and exploitation assets would be lowered which would adversely affect the recoverable amount in the discounted cash flow model accordingly. Other than the forecast future crude oil prices, other key assumptions such as the future capital expenditure to be incurred and the development plan had not been materially changed in the model as compared to those as at 31 December 2019.

Accordingly, impairment losses for oil production assets and oil exploitation assets amounting to HK$54,214,000 (31 December 2019: HK$210,731,000) and HK$5,249,000 (31 December 2019: HK$20,842,000) respectively, are provided and recognised as a separate line item in the Group's consolidated income statement.

Crude oil price assumptions were based on market expectations. At 30 June 2020, it is estimated that an increase/decrease of 20% (31 December 2019: 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 HK$48,934,000/HK$Nil (31 December 2019: HK$127,200,000/HK$66,706,000). 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 2019: 200 basis points) in the discount rate used in the assessment, with all other variables held constant would have no effect on the carrying amounts of the oil production and exploitation assets (31 December 2019: decreased by HK$7,546,000/increased by HK$8,822,000).

10. INTERESTS IN PROPERTY DEVELOPMENT

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**12,273,493**	12,021,188
Distributions	**(280,000)**	(720,000)
Changes in fair value recognised in profit or loss	**145,517**	972,305
Net changes in fair value	**(134,483)**	252,305
At 30 June / 31 December	**12,139,010**	12,273,493
Representing:		
Non-current	**10,392,267**	10,826,000
Current	**1,746,743**	1,447,493
	12,139,010	12,273,493

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 under two co-investment agreements with two wholly-owned subsidiaries of Polytec Holdings International Limited ("Polytec Holdings"), a related company. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the property development projects which is subject to an aggregate maximum amount. In return, the two wholly-owned subsidiaries of Polytec Holdings will pay to the Group cash flows from the property development projects according to the formulae set out in the co-investment agreements. Details of the funding arrangement and other key terms of the co-investment agreements were disclosed in the Company's Circular dated 23 May 2006. Interests in property development are stated at fair value at the end of the reporting period.

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

10. INTERESTS IN PROPERTY DEVELOPMENT *(continued)*

On 23 May 2018, the Tribunal de Ultima Instancia (the Court of Final Appeal) of the Macau SAR rejected the application of final appeal by Polytex Corporation Limited ("PCL"), the registered owner of the property of the project and a wholly-owned subsidiary of Polytec Holdings, for invalidating the decision made by the Chief Executive of the Macau SAR to terminate the land concession of the project.

Based on the legal opinion obtained by the Company, management is of the view that PCL has strong legal grounds and arguments to seek compensation from the Macau SAR Government for losses and damages, including but not limited to all actual losses suffered and all loss of profit as expected to be derived upon completion of the project, as a result of the procedural delay in granting the requisite approvals and permits for the development of the project which caused the incompletion of the project before the Expiry Date. Regarding the civil claim filed by PCL against the Macau SAR Government to seek compensation for losses and damage on the development project at Lote P on 29 November 2018, an unfavourable judgement was issued by the Tribunal Administrative (the Administrative Court) in Macau on 30 March 2020. With regard to this, a petition for appeal was submitted to the Court of Second Instance in Macau on 29 May 2020.

In addition, pursuant to the co-investment agreement for the development of the project, in the event that PCL fails to complete the project under the co-investment agreement, Polytec Holdings will be required to indemnify the Group in respect of any loss suffered. Therefore, any loss to the Group due to the repossession of the land of the project by the Macau SAR Government will be indemnified by Polytec Holdings. Accordingly, no impairment for the interests in the project was considered necessary at 30 June 2020.

In respect of the development project at Lotes T+T1, the occupation permit had been obtained in July 2017. The pre-sold residential units have been gradually delivered to the purchasers since late December of 2017, and the unsold residential units have been putting on the market for sale in phases.

During the period ended 30 June 2020, pursuant to the co-investment agreement, distribution of HK$280,000,000 (six months ended 30 June 2019: HK$220,000,000) was made by one of the wholly-owned subsidiaries of Polytec Holdings to the Company, in relation to the property development project at Lotes T+T1. Income arising from interests in property development recognised in the consolidated income statement from the distribution during the period ended 30 June 2020 amounted to HK$280,000,000 (six months ended 30 June 2019: HK$220,000,000).

As at 30 June 2020, interests in property development of HK$1,746,743,000 (31 December 2019: HK$1,447,493,000) was expected to be recoverable within one year and was classified as current assets.

11. TRADE AND OTHER RECEIVABLES

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

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Current	**12,119**	17,691
Within 3 months	**6,009**	2,770
More than 3 months	**63**	55
Trade receivables	**18,191**	20,516
Other receivables	**27,444**	192,704
	45,635	213,220

As at 31 December 2019, included in other receivables was a deposit of HK$161,095,000 paid to Polytec Holdings for the proposed acquisition of 60% interest of a wholly-owned subsidiary of Polytec Holdings together with the assignment of loans from Polytec Holdings. The proposed acquisition was terminated in January 2020 and the deposit was refunded to the Group accordingly.

The Group has established different credit policies for each of the Group's businesses and allows a credit period of not more than 90 days to its trade customers.

12. TRADE AND OTHER PAYABLES

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

	At 30 June 2020	At 31 December 2019
	HK$'000	*HK$'000*
Current	**756**	600
Within 3 months	**316**	29
More than 3 months	**3**	3
Trade payables	**1,075**	632
Other payables		
– Government fees and levies	**467**	2,722
– Others	**52,807**	60,512
	53,274	63,234
	54,349	63,866

FINANCIAL REVIEW

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continued to maintain a sound financial liquidity position for the period under review. As at 30 June 2020, the Group maintained a balance of cash and bank of HK$397.5 million (31 December 2019: HK$424.2 million), which was mainly denominated in Hong Kong dollars and Renminbi. The Group maintained a robust current ratio of 13.8 times (31 December 2019: 14.8 times).

As at 30 June 2020, the Group had bank borrowings of HK$1,896.5 million (31 December 2019: HK$1,496.5 million), with HK$98.5 million being repayable within one year, HK$1,348.0 million being repayable after one year but within two years and HK$450.0 million being repayable after two years but within five years. As at 30 June 2020, the amount due to a fellow subsidiary was HK$557.2 million (31 December 2019: HK$Nil) and there was no amount due to a related company (31 December 2019: HK$1,104.4 million). The amounts were unsecured, denominated in Hong Kong dollars, interest bearing at prevailing market rates and repayable after more than one year.

The Group had banking facilities of HK$1,896.5 million (31 December 2019: HK$1,896.5 million), which were fully utilised as at 30 June 2020 (31 December 2019: 78.9% utilised). The banking facilities were secured by the Group’s leasehold land and buildings and the joint venture’s investment properties, denominated in Hong Kong dollars and interest bearing at prevailing market rates, which are subject to review from time to time.

As at 30 June 2020, total equity attributable to equity shareholders of the Company amounted to HK$13,772.4 million (31 December 2019: HK$13,996.1 million). The Group’s gearing ratio, expressed as a percentage of total borrowings (including bank borrowings and amounts due to a related company/a fellow subsidiary) less amount due from a related company and cash and bank balances over the total equity attributable to equity shareholders of the Company, increased from 12.0% as at 31 December 2019 to 12.9% as at 30 June 2020.

TREASURY POLICIES

Apart from the Group’s oil business, the majority of the Group’s sales and purchases are denominated in Hong Kong dollars and Macau Patacas. Due to the fact that the Macau Pataca is pegged to the Hong Kong dollar, the Group’s exposure to this foreign exchange risk is relatively low. 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 2020, 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.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had no capital commitments contracted but not provided for (31 December 2019: HK$1.6 million).

FINANCIAL REVIEW *(continued)*

CHARGES ON ASSETS

As at 30 June 2020, certain assets of the Group and the joint venture, with aggregate net book values of approximately HK$97.9 million (31 December 2019: HK$99.7 million) and HK$1,678 million (31 December 2019: HK$1,711 million) respectively, were pledged to secure the banking facilities of the Group.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

HUMAN RESOURCES

As at 30 June 2020, the total number of employees of the Group was about 230 (31 December 2019: 230). Staff costs (excluding directors' emoluments) during the period totalled HK$25,160,000 (six months ended 30 June 2019: HK$26,085,000). The Group remunerates its employees by means of salary and bonus based on their performance, working experience, degree of hardship and prevailing market practice. The emolument policy of the Group is reviewed by the members of the Remuneration Committee and approved by the Board.

The emoluments of the Directors of the Company are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics and approved by the Board.

The Group believes that the quality of its human resources is critical for it to maintain a strong competitive edge. The Group has encouraged its employees to take training courses to strengthen their all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

OTHER INFORMATION

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company has reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2020.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

PUBLICATION OF INTERIM REPORT

The 2020 Interim Report containing all the information as required by the Listing Rules will be published on the Company's website at www.polytecasset.com and the website of Hong Kong Exchanges and Clearing Limited, while printed copies will be sent to shareholders in due course.

By Order of the Board
Polytec Asset Holdings Limited
Or Wai Sheun
Chairman

Hong Kong, 19 August 2020

As at the date of this announcement, Mr. Or Wai Sheun (Chairman), Mr. Yeung Kwok Kwong, Ms. Wong Yuk Ching and Ms. Chio Koc Ieng are Executive Directors of the Company; Mr. Lai Ka Fai and Ms. Or Pui Ying, Peranza are Non-executive Directors of the Company and Mr. Liu Kwong Sang, Dr. Tsui Wai Ling, Carlye and Prof. Dr. Teo Geok Tien Maurice are Independent Non-executive Directors of the Company.

* *For identification purpose only*