



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

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

2004 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS AND DIVIDEND

The Board of Directors of Kowloon Development Company Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiary companies (the “Group”) for the six months ended 30 June 2004, together with the comparative figures of 2003. These interim results have been reviewed by the Company’s audit committee and auditors. The auditors’ independent review report to the Board of Directors is included in the interim report to be sent to shareholders.

The Group’s profit attributable to shareholders for the first half of 2004 increased by HK\$37 million to HK\$120 million, an increase of 45% over the comparable period last year.

The Board of Directors has declared an interim dividend of 7 HK cents per share compared with 6 HK cents in the first half of 2003. Total interim dividend amounts to HK\$40 million, an increase of 37% compared with last year, which has reflected the placement of 83 million new shares issued in January this year. The dividend will be payable on 29 October 2004 to shareholders registered as at 21 October 2004.

Consolidated income statement (unaudited)

	<i>Note</i>	Six months ended 30 June	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	2	381,917	241,913
Other revenue		1,006	2,951
Depreciation		(222)	(300)
Staff costs		(15,498)	(14,841)
Cost of inventories		(191,661)	(117,913)
Other operating expenses		(34,832)	(12,913)
Profit from operations		140,710	98,897
Finance costs		(5,590)	(5,083)
Share of profits less losses of associated companies		6,294	1,959
Profit on disposal of investment in securities		—	2,399
Profit before taxation		141,414	98,172
Income tax	3	(21,748)	(15,962)
Profit after taxation		119,666	82,210
Minority interests		(41)	23
Profit attributable to shareholders		119,625	82,233
Interim dividend		39,674	29,026
Earnings per share	4	21.4 HK cents	17.0 HK cents
Dividend per share		7.0 HK cents	6.0 HK cents

Notes:

1 Accounting policies

The interim financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The same accounting policies adopted in the 2003 annual accounts have been applied to the interim financial statements.

2 Segment information

	Group turnover		Group profit/(loss)	
	Six months ended 30 June		from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Business segments				
Property investment	90,461	93,887	82,951	88,038
Property development	158,136	1,697	42,265	(433)
Finance and investments	115,819	132,614	19,406	18,579
Other businesses	17,501	13,715	6,825	4,241
	<u>381,917</u>	<u>241,913</u>	<u>151,447</u>	<u>110,425</u>
Unallocated group expenses			<u>(10,737)</u>	<u>(11,528)</u>
			<u>140,710</u>	<u>98,897</u>
(b) Geographical segments				
	Group turnover		Group profit/(loss)	
	Six months ended 30 June		from operations	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	360,956	222,843	120,813	85,826
North America	18,664	5,418	18,326	5,281
Europe	2,297	12,495	1,571	7,976
Others	—	1,157	—	(186)
	<u>381,917</u>	<u>241,913</u>	<u>140,710</u>	<u>98,897</u>

3 Income tax

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current tax — Hong Kong	17,701	11,507
Deferred tax		
— Current period	2,132	2,504
— Attributable to a change in tax rate	—	1,172
	<u>19,833</u>	<u>15,183</u>
Share of associated companies' taxation		
— Hong Kong	182	84
— Overseas	1,733	695
	<u>21,748</u>	<u>15,962</u>

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits. Overseas taxation has been provided for at the applicable tax rates ruling in the respective jurisdictions.

4 Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary shareholders of HK\$119,625,370 (2003: HK\$82,233,087) and the weighted average of 558,559,059 ordinary shares (2003: 483,767,850 ordinary shares) in issue during the period.

No diluted earnings per share for the six months ended 30 June 2003 and 2004 have been presented as the Company has no dilutive potential ordinary shares for the period.

BUSINESS REVIEW

The Hong Kong economy has benefited considerably from the cyclical upturn globally and the influx of visitors from the Mainland, with the local economy expanding over 9% in the first half of the year. Indeed, the local economic recovery seems to be reasonably broad-based and these favourable economic conditions have significantly supported our core property business during the period. The Group's gross turnover for the first half year rose 58% to HK\$382 million compared with the same period last year.

In January, the Group raised HK\$569 million by issuing 83 million new shares. This was intended to facilitate a rapid yet solid future expansion for the Group and hence maximize returns for shareholders.

Property Sales

With market sentiment improving considerably, the Group's property sales turnover amounted to HK\$158 million in the first half of the year, compared with HK\$1.7 million in the same period last year. A significant portion of income was generated from the sales of residential units of La Maison Du Nord at 12 North Street, Kennedy Town, where all 75 units were sold by the end of March.

Property Development

In January, we acquired an 80% interest in La Baie Du Noble in Macau, an important commercial and residential property development project. This acquisition represents a significant first step for us to establish our business presence in Macau, where we believe the economy will sustain a high rate of growth in the next few years. The pre-sale result of this property project has been encouraging and will likely contribute a positive cash-flow to the Group shortly. The whole construction work is expected to be completed in the second half of next year.

In Hong Kong, construction of the residential property Padek Palace at 377 Prince Edward Road West was completed in the first half of the year. The interior decoration of show flats and the clubhouse is expected to be completed soon after which the property will be ready for public sale.

Property development project completed

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq. ft.)
Padek Palace No.377 Prince Edward Road West Kowloon City Kowloon	Residential	100	54,896

We will continue to procure new property development projects; and the status of the Group's projects in progress is shown below.

Property development projects in progress

Location	Usage	Group's Interest (%)	Attributable Gross Floor Area (sq. ft.)	Status	Expected Date of Completion
Macau					
La Baie Du Noble Lote S Novos Aterros da Areia Preta Macau	Commercial and Residential	80	1,280,000	Superstructure works in progress	2nd half 2005
Hong Kong					
Nos. 31 & 31A-G Robinson Road Mid-Levels Hong Kong	Residential	100	128,084	Superstructure works in progress	1st half 2006
No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	Joint Venture with Urban Renewal Authority	78,372	Foundation works completed	1st half 2006
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	100	2,101,428	Site formation will start before end of 2004	2007/08
			3,587,884		

Property Investment

In the first half of the year, we acquired two commercial properties in Tsim Sha Tsui East, the Second Floor of the commercial podium of New Mandarin Plaza and all the shop spaces and 10 car parking spaces on the Basement Floor of Peninsula Centre, which have been added to our property investment portfolio to generate further rental income for the Group.

The Group's gross rental income generated by the property investment portfolio, which comprises of mainly retail shopping malls and commercial offices properties, recorded a small decline of 3.6% in the first half to HK\$90 million compared with the same period in 2003. This was principally due to the renewal of the lease of a substantial amount of office space in the third quarter last year when office rents in Hong Kong had not recovered from their historic lows after SARS. However the average occupancy rate of

our property investment portfolio improved and remained high at 95%. With the local economy heading for a more sustainable recovery and overall market sentiment clearly improving, both office and retail rental yields have generally improved for new leases and renewals. In addition, we will continue to enhance the value of our property investment portfolio to further improve the Group's gross rental income.

Property Management

The Group's property management business continued to expand in the first half of the year, with the size of the portfolio managed increasing to approximately 1 million sq. ft. While the property management business generates relatively insignificant income to the Group, our main objective is to provide quality management services to our own property projects.

Other Businesses

The performance of the Group's other businesses, mainly including money-lending and film distribution, was satisfactory in the first half of the year, with operating profit rising 54% to HK\$6.7 million compared to the corresponding period last year.

FINANCIAL REVIEW

Financial Resources and Borrowings

The total bank borrowings of the Group as at 30 June 2004 amounted to HK\$2,256 million representing an increase of HK\$47 million from 31 December 2003. During the period under review, the Group raised HK\$569 million from the issue of 83 million new shares. Part of the proceeds were utilized in financing the HK\$400 million acquisition of the 80% interest in La Baie Du Noble, Macau, the balance of the acquisition costs being financed by bank borrowings and advances from the Company's controlling shareholder, Polytec Holdings International Limited. The loan from Polytec Holdings International Limited was HK\$109 million as at 30 June 2004. In the first half of 2004, the Group generated a total cash inflow of more than HK\$100 million from the sale of development properties. On the other hand, HK\$152 million was used to acquire two investment properties in Tsim Sha Tsui East. The gearing ratio, calculated on the basis of net bank borrowings to shareholders' equity, standing at 71% as at 30 June 2003 was reduced to 67% as at 31 December 2003 and further improved to 58% by 30 June 2004.

All banking facilities are arranged on a floating rate basis. The Group did not enter into any interest rate swap arrangement during the period under review. Management will monitor the market and interest exposure of the Group closely and consider hedging when appropriate.

With committed undrawn financing facilities in place, recurrent rental income from investment properties and cash inflow from property sales in Hong Kong and Macau, the Group has sufficient funds to satisfy its capital commitments and working capital requirements in the current financial year.

The Group has little exposure to currency risk as most of the Group's operations are in Hong Kong and transactions are denominated in local currency.

Finance and Investments

As at 30 June 2004, the Group had invested a total of HK\$564 million, including HK\$52 million in equity-linked notes, HK\$115 million in marketable securities and HK\$390 million in a ten year note with triple A rating.

The finance and investment activities contributed an operating profit of HK\$19 million for the period under review, slightly better than that of the same period last year. The Group has been able to maintain a stable profit from financial investments and management will persist in its conservative approach in managing available funds.

Commitments

As at 30 June 2004, the Group had contracted commitments of HK\$230 million for financial investments and another HK\$83 million for properties.

Commitments authorized but not contracted for related to properties under development amounted to HK\$209 million.

Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK\$7 million to an insurance company in respect of performance bonds entered into by the associated companies engaged in property management services.

As at 30 June 2004, properties and securities of the Group with an aggregate carrying value of HK\$4,133 million and time deposits of HK\$9.4 million were pledged to banks to secure credit facilities or as margin for financial investments.

OUTLOOK

We are actively looking for profitable property investment and development opportunities in Hong Kong and Macau. Given the possibility of interest rate increases in the year ahead, we will be proactive but prudent in our decision-making.

OTHER INFORMATION

Audit Committee

The Audit Committee, comprising four Non-executive Directors a majority of whom are Independent Non-executive Directors, meets at least twice a year to review interim and final results of the Group prior to recommending them to the Board for approval and to discuss matters relating to the effectiveness of the Group's financial reporting process and internal controls. Senior representatives of the auditors and senior executives of the Company are invited to attend the meetings.

Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, at any time during the six months ended 30 June 2004.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the period under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

Purchase, Sale or Redemption of Shares

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the six months ended 30 June 2004.

Staff Remuneration and Training

As at 30 June 2004, the Group (excluding associates) employed a total of 154 (30 June 2003: 136) employees. Employee remuneration amounted to approximately HK\$15 million for the period. The Group ensures that pay levels of employees remain competitive and employees are rewarded based on their performances. The Group operates a share option scheme to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

Closure of Register of Members

The Register of Members of the Company will be closed from Wednesday, 20 October 2004 to Thursday, 21 October 2004. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 19 October 2004.

By Order of the Board
Or Wai Sheun
Chairman

Hong Kong, 10 September 2004

As at the date of this announcement, the Board of Directors of the Company comprises Mr Or Wai Sheun (Chairman), Mr Keith Alan Holman (Deputy Chairman), Ms Ng Chi Man (Executive Director), Mr Lai Ka Fai (Executive Director), Mr Tam Hee Chung (Non-executive Director), Mr Yeung Kwok Kwong (Non-executive Director) and 4 Independent Non-executive Directors, namely Mr Chau Cham Son, Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John.

This results announcement will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Group (www.kdc.com.hk) in due course and the interim report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be available from the same websites on or before 24 September 2004.

Please also refer to the published version of this announcement in the South China Morning Post.