

九龍建業有限公司
Kowloon Development Company Limited

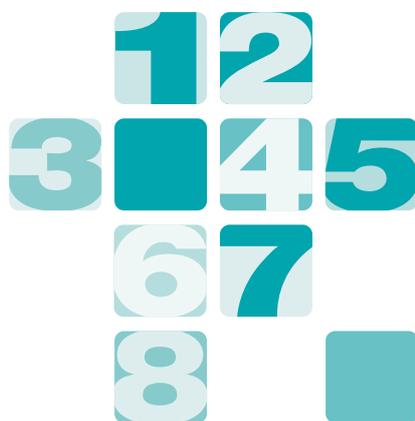
KOWLOON DEVELOPMENT



INTERIM
REPORT
2004

CONTENTS

1	FINANCIAL HIGHLIGHTS
2	CHAIRMAN'S STATEMENT
5	FINANCIAL REVIEW
7	CONSOLIDATED INCOME STATEMENT
8	CONSOLIDATED BALANCE SHEET
10	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
11	CONDENSED CONSOLIDATED CASH FLOW STATEMENT
12	NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT
24	INDEPENDENT REVIEW REPORT OF THE AUDITORS
25	OTHER INFORMATION
28	CORPORATE INFORMATION



Cover Photos:

- 1 Padek Palace in Prince Edward Road West, Kowloon
- 2 The exquisitely designed entrance lobby of Padek Palace
- 3 Computer rendering image of Pioneer Centre after the planned renovation
- 4 A new image for the 3/F, Pioneer Centre shopping mall
- 5 The Atrium on G/F of Pioneer Centre will have a fresh outlook after renovation
- 6 The remains of the Church of St. Paul in Macau
- 7 La Baie Du Noble, a luxury coast-front property development in Macau
- 8 The swimming pool in the deluxe clubhouse of Padek Palace

Background is Pioneer Centre in Mongkok

FINANCIAL HIGHLIGHTS

	Half-year to		
	30 June 2004	30 June 2003	Change
	HK\$'000	HK\$'000	
Turnover	381,917	241,913	+58%
Profit from operations	140,710	98,897	
Profit before taxation	141,414	98,172	
Profit attributable to shareholders	119,625	82,233	+45%
Interim dividend	39,674	29,026	
Earnings per share (HK cents)*	21.4	17.0	+26%
Dividend per share (HK cents)	7.0	6.0	
Gearing ratio	58%	71%	
Shares in issue (million)	567	484	

* Earnings per share (EPS) as at 30 June 2004 reflected the placement of 83 million new shares issued in January 2004; otherwise EPS would have amounted to 24.7 HK cents or a 45% increase compared with the corresponding period last year.

CHAIRMAN'S STATEMENT

Interim Results and Dividend

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, and reflects 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.

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.

CHAIRMAN'S STATEMENT *(continued)*

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		

CHAIRMAN'S STATEMENT *(continued)*

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.

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.

Or Wai Sheun

Chairman

Hong Kong, 10 September 2004

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.

CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2004 (Unaudited) \$'000	2003 (Unaudited) \$'000
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	3(a)	(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	3	141,414	98,172
Income tax	4	(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	5(a)	39,674	29,026
Earnings per share	6	21.4 cents	17.0 cents
Dividend per share	5(a)	7.0 cents	6.0 cents

The notes on pages 12 to 23 form part of the interim financial report.

CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

		At 30 June 2004 (Unaudited) \$'000	At 31 December 2003 (Audited) \$'000
	<i>Note</i>		
Non-current assets			
Fixed assets	8	3,223,889	3,019,710
Land held for future development		10,216	10,216
Land and development rights	9	1,239,228	1,230,418
Interest in associated companies		38,650	32,674
Investments in securities	11	396,698	394,872
Loans and advances		60,317	56,239
Deferred tax assets		1,376	1,864
		4,970,374	4,745,993
Current assets			
Interest in property developments	12	400,000	—
Stock of properties	13	834,178	899,772
Trade and other receivables	14	117,554	62,184
Loans and advances		109,570	104,828
Investments in securities		167,276	63,644
Time deposits (pledged)		9,402	5,719
Cash and cash equivalents		5,896	8,889
		1,643,876	1,145,036
Current liabilities			
Trade and other payables	15	246,267	285,857
Bank loans		775,024	370,000
Current taxation		26,790	13,006
		1,048,081	668,863
Net current assets		595,795	476,173
Total assets less current liabilities		5,566,169	5,222,166

CONSOLIDATED BALANCE SHEET (continued)

(Expressed in Hong Kong dollars)

		At 30 June 2004 (Unaudited) \$'000	At 31 December 2003 (Audited) \$'000
	<i>Note</i>		
Non-current liabilities			
Loan from ultimate holding company	16	108,991	—
Bank loans		1,480,594	1,838,989
Other payables		73,603	73,603
Deferred tax liabilities		22,968	21,325
		1,686,156	1,933,917
Minority interests		1,517	1,476
Net assets		3,878,496	3,286,773
Capital and reserves			
Share capital	17	56,677	48,377
Reserves	18	3,821,819	3,238,396
		3,878,496	3,286,773

Approved and authorized for issue by the board of directors on 10 September 2004.

The notes on pages 12 to 23 form part of the interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2004	2003
		(Unaudited) \$'000	(Unaudited) \$'000
Total equity at 1 January		3,286,773	3,243,189
Net gains/(losses) not recognized in the income statement			
— surplus/(deficit) on revaluation of investment properties	18	40,543	(39,031)
Net profit for the period		119,625	82,233
Dividends approved and paid in respect of the previous financial year	5(b)	(124,689)	(96,754)
Revaluation surplus transfer to income statement upon disposal of investment in securities		—	(5,864)
Issue of shares	17	8,300	—
Net share premium received	18	547,944	—
Total equity at 30 June		3,878,496	3,183,773

10

Interim Report 2004

The notes on pages 12 to 23 form part of the interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	\$'000	\$'000
Net cash from/(used in) operating activities	48,044	(454,668)
Net cash used in investing activities	(638,500)	(196,700)
Net cash from financing activities	587,463	638,210
Net decrease in cash and cash equivalents	(2,993)	(13,158)
Cash and cash equivalents at 1 January	8,889	18,942
Cash and cash equivalents at 30 June	5,896	5,784

The notes on pages 12 to 23 form part of the interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Accounting policies

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 24. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The interim financial report has 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 HKICPA.

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. The auditors have expressed an unqualified opinion on those accounts in their report dated 29 March 2004.

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

The notes on the interim financial report 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 2003 annual accounts.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

2 Segment information

(a) Business segments

	Group turnover		Group profit/(loss)	
	Six months ended		from operations	
	30 June		Six months ended	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
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
	381,917	241,913	151,447	110,425
Unallocated group expenses			(10,737)	(11,528)
			140,710	98,897

(b) Geographical segments

	Group turnover		Group profit/(loss)	
	Six months ended		from operations	
	30 June		Six months ended	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'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)
	381,917	241,913	140,710	98,897

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Hong Kong dollars)

3 Profit before taxation

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

(a) Finance costs

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Interest on bank loans	10,338	18,668
Interest on loan from ultimate holding company	788	—
Less: Amount capitalized (<i>Note</i>)	(4,982)	(12,275)
	6,144	6,393
Less: Interest expense included as other operating expenses	(554)	(1,310)
	5,590	5,083

Note: Borrowing costs were capitalized at the prevailing market interest rates.

(b) Other items

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Rentals receivable under operating leases less outgoings	(82,812)	(85,547)
Rental income	(90,461)	(93,887)
Less: Outgoings	7,649	8,340
Provision for diminution in value of properties held for sale	7,276	—
Provision for bad and doubtful debts and bad debts written off	6,220	4,313
Income from listed securities	(1,670)	(2,468)
Income from unlisted securities	(19,549)	(13,443)

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT *(continued)*

(Expressed in Hong Kong dollars)

4 Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits of the period	18,883	11,507
Overprovision in respect of prior years	(1,182)	—
	17,701	11,507
Deferred tax		
Origination and reversal of temporary differences	2,132	2,504
Amount attributable to a change in tax rate	—	1,172
	2,132	3,676
Share of associated companies' taxation		
— Hong Kong	182	84
— Overseas	1,733	695
	1,915	779
	21,748	15,962

Overseas taxation of the associated companies has been provided for at the applicable tax rates ruling in the respective jurisdictions.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

5 Dividends

(a) Dividends attributable to the interim period

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Interim dividend declared after the interim period end of 7 cents (2003: 6 cents) per share	39,674	29,026

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

(b) Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 22 cents (2003: 20 cents) per share	124,689	96,754

6 Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary shareholders of \$119,625,370 (2003: \$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.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

7 Acquisition of a subsidiary

During the period, the Group acquired from its ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings"), the entire issued share capital together with shareholders' loans of one of Polytec Holdings' wholly owned subsidiary. The company acquired had a co-investment with another wholly owned subsidiary of Polytec Holdings in a property project in Macau. The consideration paid was \$400,000,000. The fair value of assets of the company acquired were as follows:

	\$'000
Net assets acquired	
Interest in property developments	400,000
Shareholders' loans	(175,699)
Cash consideration paid for net assets	224,301
Cash consideration paid for shareholders' loan	175,699
Cash outflow on acquisition of the subsidiary	400,000

8 Fixed assets

The investment properties of the Group were revalued at 30 June 2004 by Vigers Appraisal and Consulting Limited, an independent firm of professional surveyors, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

The cost or valuation of the other properties has been apportioned between land, buildings and other assets on the basis of estimates made by the directors.

9 Land and development rights

Land and development rights represents the Group's interest in the development of a property at Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 30 June 2004, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$181 million (at 31 December 2003: \$248 million) of which \$74 million (at 31 December 2003: \$74 million) is payable after one year.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

10 Jointly controlled assets

The aggregate amounts of assets and liabilities recognized in the accounts relating to the Group's interest in the jointly controlled assets were as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Assets		
Property under development	120,717	113,865
Trade and other receivables	102	1
	120,819	113,866
Liabilities		
Bank loans	58,300	56,300
Trade and other payables	2,681	—
	60,981	56,300

11 Investments in securities

As at 30 June 2004, held-to-maturity securities under non-current assets included an investment of US\$50 million in a 10 year note issued by a corporation established by the United States Congress with Aaa/AAA rating by Moody's and Standard & Poor's. The Group intends to hold the note until maturity in 2013 unless redeemed early by the note issuer.

12 Interest in property developments

Interest in property developments represents the Group's interest in the development of a property at Macau under the co-investment agreement with a wholly owned subsidiary of Polytec Holdings (Note 7).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

13 Stock of properties

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Properties under development	645,052	810,872
Properties held for sale	189,126	88,900
	834,178	899,772

Properties held for sale of \$3,325,000 (at 31 December 2003: \$10,601,016) are stated at net realizable value.

14 Trade and other receivables

The following is an ageing analysis of trade receivables:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Current and overdue within 3 months	56,215	30,756
Overdue between 3 to 6 months	5,314	4,216
Overdue more than 6 months	11,684	9,296
Trade receivables	73,213	44,268
Utility and other deposits	3,338	1,153
Other receivables and prepayments	41,003	16,763
	117,554	62,184

Utility and other deposits of the Group of \$3,216,277 (at 31 December 2003: \$926,136) are expected to be recovered after more than one year.

Debtors and prepayments of the Group of \$3,745,918 (at 31 December 2003: \$4,824,972) are expected to be recovered after more than one year.

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

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

15 Trade and other payables

The following is an ageing analysis of trade payables:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Not yet due or on demand	26,733	25,333
Overdue less than 3 months	6,113	6,476
Overdue between 3 to 6 months	5	—
Trade payables	32,851	31,809
Rental and other deposits	39,801	37,247
Deposits received on sale of properties	6,507	—
Other payables and accrued expenses	167,108	216,801
	246,267	285,857

Rental and other deposits of the Group of \$38,374,115 (at 31 December 2003: \$35,635,652) are expected to be refunded after more than one year.

Creditors and accrued expenses of the Group of \$403,655 (at 31 December 2003: \$85,655) are expected to be settled after more than one year.

16 Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing and has fixed terms of repayment. Interest is charged at bank lending rates.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

17 Share capital

	No of shares of \$0.1 each	\$'000
Issued and fully paid		
At 1 January 2004	483,767,850	48,377
Issue of shares	83,000,000	8,300
At 30 June 2004	566,767,850	56,677

On 19 January 2004, the Company issued and allotted 83,000,000 new shares to its major shareholder at a price of \$6.85 per share after the placement of 83,000,000 old shares by the major shareholder at a price of \$6.85 per share to independent third parties.

18 Reserves

	Investment property revaluation reserve \$'000	Investment revaluation reserve \$'000	Capital reserve \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2004	1,782,959	(17,736)	2,154	9,971	1,461,048	3,238,396
Revaluation surplus	40,543	—	—	—	—	40,543
Premium on issue of shares	—	—	—	560,250	—	560,250
Expenses on issue of shares	—	—	—	(12,306)	—	(12,306)
Final dividend paid (Note 5(b))	—	—	—	—	(124,689)	(124,689)
Profit for the period	—	—	—	—	119,625	119,625
At 30 June 2004	1,823,502	(17,736)	2,154	557,915	1,455,984	3,821,819

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT (continued)

(Expressed in Hong Kong dollars)

19 Commitments

Commitments outstanding at the balance sheet date not provided for in the accounts were as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Contracted for		
— properties under development	68,811	35,171
— investment properties	13,873	17,580
— investments in securities	229,576	164,196
	312,260	216,947
Authorized but not contracted for		
— properties under development	209,334	231,617
— investment properties	—	480
	209,334	232,097

20 Contingent liabilities

At 30 June 2004, the Group has given guarantees to an insurance company in respect of performance bonds entered into by certain associated companies to the extent of \$6,952,000 (at 31 December 2003: \$6,952,000).

21 Pledge of assets

At 30 June 2004, properties and securities of the Group with an aggregate carrying value of approximately \$4,132,532,000 (at 31 December 2003: \$3,936,841,000) and time deposits of \$9,402,000 (at 31 December 2003: \$5,719,000) were pledged to banks under fixed charges to secure banking facilities granted to the Group or as margin for Group's investments in securities.

22 Material related party transactions

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 9.
- (b) Details of the acquisition of a subsidiary from Polytec Holdings during the period was set out in note 7. Polytec Holdings had advanced a loan to the Group in relation to this acquisition. Details of the loan and interest paid by the Group thereon are disclosed in notes 16 and 3 respectively.
- (c) Guarantees in respect of performance bonds provided for certain associated companies were disclosed in note 20.

INDEPENDENT REVIEW REPORT OF THE AUDITORS

Independent Review Report to the Board of Directors of Kowloon Development Company Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 23.

Respective responsibilities of directors and auditors

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 Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

KPMG

Certified Public Accountants

Hong Kong, 10 September 2004

OTHER INFORMATION

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to Eligible Persons who contribute to the success of the Group's operations. Eligible Persons include any employee, director, supplier, customer, business partner or business associate, trading agent, consultant or adviser, holder of any securities issued by any member of the Group or any entity in which the Group holds an equity interest ("Invested Entity") of any member of the Group or any Invested Entity who, in the discretion of the Board of Directors, has contributed or will contribute to the growth and development of the Group or any Invested Entity.

The Share Option Scheme was adopted by the Company on 21 May 2003 and complies with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years.

The total number of shares which may be issued pursuant to the Share Option Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of approval of the New Share Option Scheme. No option has been granted under the Share Option Scheme to any person since its adoption and the total number of shares available for issue remains at 48,376,785 representing 8.5% of the issued share capital of the Company at the date of this report.

Corporate Governance

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.

OTHER INFORMATION *(continued)*

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.

Directors' Interests and Short Positions

As at 30 June 2004, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares of the Company as recorded in the register required to be kept under Part XV (s.352) of the Securities and Futures Ordinance ("SFO"):

Name of Director	Shares of HK\$0.10 each in the capital of the Company			Note
	Long position	Short position	Percentage of total issued share	
Or Wai Sheun	353,023,083	—	62.29%	1
Ng Chi Man	352,838,083	—	62.25%	2
Tam Hee Chung	750,000	—	0.13%	3
Lai Ka Fai	239,000	—	0.04%	4
Yeung Kwok Kwong	100,000	—	0.02%	4
Keith Alan Holman	130,000	—	0.02%	4
Lok Kung Chin, Hardy	200,000	—	0.04%	5

Notes:

1. *Mr Or Wai Sheun was deemed to be interested in 352,838,083 shares ultimately wholly-owned by a discretionary family trust of which Mr Or is the founder and a beneficiary. These shares were the shares disclosed under the section of Ms Ng Chi Man in the above table and in the Note of the section on "Disclosable Interests and Short Positions of Shareholders under the SFO".*

Mr Or Wai Sheun was deemed to be interested in 185,000 shares owned by China Dragon Limited due to his corporate interest therein.

2. *Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 352,838,083 shares as a beneficiary of the discretionary family trust referred to in Note 1 above.*

3. *Mr Tam Hee Chung was the beneficial owner of 250,000 shares and was deemed to be interested in 500,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.*

4. *Shares were held by the respective Directors in their capacity as beneficial owner.*

5. *Mr Lok Kung Chin, Hardy was taken to be interested in 200,000 shares owned by a discretionary trust of which Mr Lok is the founder.*

OTHER INFORMATION *(continued)*

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director of the Company or their respective associates 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 were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the Directors (including their spouses and children under the age of 18) had, as at 30 June 2004, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Disclosable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2004, the interests and short positions of persons, other than Directors in the shares and underlying shares of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO were as follows:

Name of Shareholder	Shares of HK\$0.10 each in the capital of the Company		Percentage of total issued shares
	Long position	Short position	
HSBC International Trustee Limited	354,074,433	—	62.47%
The Or Family Trustee Limited Inc.	352,838,083	—	62.25%

Note: Of the 354,074,433 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 352,838,083 shares were the shares held by The Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred to in Note 1 of the section on "Directors' Interests and Short Positions".

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 performance. 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.

CORPORATE INFORMATION

Board of Directors

Or Wai Sheun, *Chairman*

Keith Alan Holman, *Deputy Chairman*

Ng Chi Man, *Executive Director*

Lai Ka Fai, *Executive Director*

Tam Hee Chung, *Non-executive Director*

Yeung Kwok Kwong, *Non-executive Director**

Chau Cham Son, *Independent Non-executive Director*

Li Kwok Sing, Aubrey, *Independent Non-executive Director***

Lok Kung Chin, Hardy, *Independent Non-executive Director**

Seto Gin Chung, John, *Independent Non-executive Director**

** *Chairman of Audit Committee*

* *Member of Audit Committee*

Company Secretary

Wai Yuk Hing, *Monica*

Auditors

KPMG

Registrars

Computershare Hong Kong Investor Services Limited

Shops 1712-6, 17th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

Registered Office

23rd Floor, Pioneer Centre

750 Nathan Road, Kowloon, Hong Kong

Tel: (852) 2396 2112

Fax: (852) 2789 1370

Website

www.kdc.com.hk

Stock Code

The Hong Kong Stock Exchange: 34