



九龍建業有限公司  
**KOWLOON DEVELOPMENT COMPANY LIMITED**  
*(Incorporated in Hong Kong with limited liability)*

**2003 INTERIM RESULTS ANNOUNCEMENT**

**INTERIM RESULTS**

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 2003 together with the comparative figures for 2002. 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.

**Consolidated income statement (unaudited)**

		<b>Six months ended 30 June</b>	
		<b>2003</b>	<b>2002</b>
			<b>(Restated)</b>
	<i>Note</i>	<b>\$'000</b>	<b>\$'000</b>
<b>Turnover</b>	2	<b>241,913</b>	210,013
Other revenue		<b>2,951</b>	6,678
Depreciation		<b>(300)</b>	(1,151)
Staff costs		<b>(14,841)</b>	(16,054)
Cost of inventories		<b>(117,913)</b>	(87,668)
Other operating expenses		<b>(12,913)</b>	(18,266)
		<hr/>	<hr/>
<b>Profit from operations</b>		<b>98,897</b>	93,552
Finance costs		<b>(5,083)</b>	(2,221)
Share of profits less losses of associated companies		<b>1,959</b>	2,111
Profit on disposal of investment in non-trading securities		<b>2,399</b>	176
Profit on disposal of investment in an associated company		<b>–</b>	589
		<hr/>	<hr/>
<b>Profit before taxation</b>		<b>98,172</b>	94,207
Taxation	3	<b>(15,962)</b>	(16,557)
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<b>Profit after taxation</b>	<b>82,210</b>	77,650
Minority interests	<b>23</b>	(685)
<b>Profit attributable to shareholders</b>	<b>82,233</b>	<b>76,965</b>
<b>Dividends attributable to the interim period</b>		
Interim dividend declared after the interim period end of 6 cents (2002: 5 cents) per share	<b>29,026</b>	<b>24,188</b>
<b>Earnings per share</b>	<b>4</b>	
Basic	<b>17.0 cents</b>	<b>15.9 cents</b>
Diluted	<b>N/A</b>	<b>15.9 cents</b>

*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 (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial statements except that the Group has changed its accounting policies following its adoption of the SSAP 12 (revised) “Income Taxes” issued by the HKSA.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred tax. Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. As a result of the adoption of this accounting policy, the Group’s net assets at 30 June 2003 have been decreased by \$5,194,409 (at 31 December 2002: \$5,419,638) and the Group’s profit attributable to shareholders for the period ended 30 June 2003 have been increased by \$225,229 (30 June 2002: decreased by \$4,539,054). The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior period.

## 2 Segment information

	Group turnover		Contribution to profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<i>(a) Business segments</i>				
<i>Continuing operations</i>				
Property investment	93,887	87,878	88,038	83,917
Property development	1,697	85,894	(433)	10,740
Investments in securities	132,614	20,877	18,579	2,040
Film distribution	1,086	7,675	(263)	4,835
Other business	12,629	4,938	4,504	974
	<b>241,913</b>	207,262	<b>110,425</b>	102,506
<i>Discontinued operations</i>				
Trading of goods	-	2,751	-	(101)
	<b>241,913</b>	210,013	<b>110,425</b>	102,405
Unallocated group expenses			(11,528)	(8,853)
			<b>98,897</b>	<b>93,552</b>

### *(b) Geographical segments*

	Group turnover	
	Six months ended 30 June	
	2003 \$'000	2002 \$'000
Hong Kong	222,843	196,974
Europe	12,495	6,825
North America	5,418	3,176
Others	1,157	3,038
	<b>241,913</b>	<b>210,013</b>

Contribution to profit from operations by geographical segments has not been presented as majority of the operating profit is derived in Hong Kong.

### 3 Taxation

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<i>\$'000</i>	(Restated) <i>\$'000</i>
Group – Hong Kong	<b>15,183</b>	15,849
Associated companies		
– Hong Kong	<b>84</b>	143
– Overseas	<b>695</b>	565
	<b>15,962</b>	16,557

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) 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

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of \$82,233,087 (2002: \$76,964,485 restated) and 483,767,850 ordinary shares (2002: 483,767,850 ordinary shares) in issue during the period.

(b) *Diluted earnings per share*

In 2002, the calculation of diluted earnings per share was based on the profit attributable to ordinary shareholders of \$76,964,485 (restated) and the weighted average of 484,068,561 ordinary shares after adjusting for the effects of dilutive potential ordinary shares in respect of share options granted. All the outstanding share options were surrendered at a price of \$0.58 per share during the unconditional cash offer made by Intellinsight Holdings Limited, the immediate holding company of the Group, and were cancelled in January 2002.

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

### INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of  $\phi 6$  per share (2002:  $\phi 5$  per share) which will be payable on 30 October 2003 to shareholders registered as at 22 October 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 21 October 2003 to Wednesday, 22 October 2003, both dates inclusive. 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 Monday, 20 October 2003.

## **REVIEW OF OPERATIONS**

### **Overview**

Since the change of management in the beginning of 2002, the Group has focused its effort on property development and related investments.

Subsequent to the acquisition of property interests from Polytec Holdings International Limited, retail shops in the New Mandarin Plaza (in Tsimshatsui East) and Sino Centre (in Mongkok) in 2002, the Group acquired at the beginning of 2003 all the residential units of The Bonham Mansion (63 Bonham Road, Mid-levels) which were launched to the market in July for resale after renovation. Management has taken a very cautious approach in making new investments during the period under review as a response to the further weakening of the Hong Kong economy.

### **Property Investment**

The drastic drop in retail sales during the Severe Acute Respiratory Syndrome ("SARS") epidemic has forced retailers to re-structure their business plans and negotiations for new lettings and tenancy renewals during the first half of 2003 have been difficult.

The Group's flagship property, Pioneer Centre, has been able to maintain its occupancy at a high level. Occupancy rate for the office sector was 97.57% as at 30 June 2003 (30 June 2002: 98.92%), while that for the retail sector was 95.69% (30 June 2002: 96.03%). The overall occupancy rate of the building was 96.85% as at 30 June 2003 (30 June 2002: 97.84%). With the effect of SARS dying out, the Group has begun a renovation of the Basement One Floor of the shopping mall of Pioneer Centre to draw in tenants with youth-oriented brand names. This marks the beginning of the Group's move to establish Pioneer Centre as a focal point of its district.

The 20th Floor of Argyle Centre Phase 1 in Mongkok was able to maintain its rental income at last year's level.

The Group purchased a majority portion of the 1st Floor of the commercial podium of the New Mandarin Plaza in Tsimshatsui East on 27 March 2002, and the occupancy of this investment was 78.49% as at 30 June 2003 (30 June 2002: 90.6%).

Another new investment in June 2002 was the retail shops in Sino Centre, Mongkok and the occupancy of this investment was 96.75% as at 30 June 2003 (30 June 2002: 89.39%).

Although the market for serviced apartments has also suffered under the economic recession and the SARS outbreak, occupancy of The Elgin reached 80% as at 30 June 2003 (30 June 2002: 65%) as a result of a substantial marketing effort.

Income from car parks at Pioneer Centre, Manor Centre and Merit Industrial Centre has dropped in line with the deflationary environment and weak consumer sentiment.

### **Property Sales**

All 104 residential units of The Bonham Mansion at 63 Bonham Road, Mid-levels, Hong Kong were launched to the market in July 2003 after undergoing a major renovation program. Due to the building's unique location in Mid-levels, Hong Kong, and its proximity to high quality schools, the offer of the units has been well received.

### **Property Development**

Of the four wholly-owned properties under development, construction of the single residential towers at 12 North Street, Kennedy Town (gross floor area: about 34,365 sq. ft.) and 377 Prince Edward Road West, Kowloon City (gross floor area: about 54,876 sq. ft.) is scheduled to complete by the end of 2003 and early 2004 respectively.

Construction of the podium of the deluxe residential tower (gross floor area: about 128,084 sq. ft.) at 31 Robinson Road, Mid-levels has been completed. As further design improvement for the residential units is underway, the tentative completion of the project has been rescheduled to the first half of 2005.

The development plan for the project in Ngau Chi Wan, Choi Hung was approved by the Town Planning Board at the end of August 2003. Negotiation with the Government on the land premium will commence shortly. Site works are scheduled to commence in 2004.

In August this year, the Group together with Urban Renewal Authority agreed with the Government on the land premium for the joint venture residential development project at 33 Ka Wai Man Road, Kennedy Town. Site works are expected to commence in the first half of 2004.

### **Property Management**

As at 30 June 2003, the size of the portfolio being managed by the Group's property management arm, Country House Property Management Limited, increased to about 816,000 sq. ft.

### **Securities Investment**

As at 30 June 2003, the Group had invested a total of \$486.1 million in securities (30 June 2002: \$131.3 million) of which \$390 million was invested in a note issued by a corporation established by the United States Congress and rated Aaa/AAA by Moody's and Standard & Poor's. The Group's portfolio of securities made an increased contribution of \$18.6 million for the period under review (2002: \$2 million).

### **Financial Services**

During the period under review, the money-lending business of Kowloon Development Finance Limited has continued to provide the Group with a reasonable return.

### **Film Distribution**

Golden Princess Amusement Company Limited suffered a slight loss during the first half of 2003. However, as additional distribution licences have been successfully concluded on a package basis recently, it is anticipated that an improved result will be seen in the second half of 2003.

### **Distribution and Sale of Footwear**

The Group's 20% owned associate, Southern Success Corporation, has continued to make a small contribution to the Group's profit from its footwear wholesaling and retailing business.

### **Staff Remuneration and Training**

At 30 June 2003, the Group (excluding associated companies) employed around 130 employees. The Group provides medical benefits and retirement schemes to all employees who are remunerated according to the performance of the individual employee and the Group. The Group also provides in-house training and external training opportunities to employees in order to promote their further development and maintain a competitive workforce.

## **FINANCIAL REVIEW**

### **Liquidity, Financial Resources and Borrowings**

The total bank borrowings of the Group as at 30 June 2003 were \$2,258.3 million with 85.3% being repayable after one year.

While the ratio of bank borrowings to shareholders' equity was 71% up from 47% at 31 December 2002, the increase in bank loans was attributable to the acquisition of The Bonham Mansion, capital expenditure on the Group's development projects and increase in securities investment.

All banking facilities are arranged on a floating rate basis. The Group manages its existing interest rate exposure based on current interest rate levels and outlook. The Group has insignificant exposure to currency risk.

### **Commitments**

The Group had \$3.2 million of capital commitments contracted for and \$13.2 million of capital commitments authorized but not yet contracted for as at 30 June 2003. These sums are to be incurred mainly for upgrading and renovating the Group's existing investment properties.

As at 30 June 2003, the Group had contracted commitment of \$176.7 million and \$73.8 million respectively for investment in securities and properties under development. Commitments in respect of properties under development authorized but not contracted for were \$364 million.

### **Contingent Liabilities and Pledge of Assets**

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

As at 30 June 2003, properties and securities with an aggregate carrying value of approximately \$3,850.3 million and time deposits of \$41.6 million were pledged to banks to secure banking facilities or as margin deposits for investments in securities.

## **PROSPECTS**

During the first half of 2003, the sluggish global economy continued to create pressure on the recovery of the economy of Hong Kong. Since March, the economy of Hong Kong has suffered another setback from the outbreak of SARS which has also negatively affected the property market. However, the recent increase in Mainland tourists and the announcement of the Closer Economic Partnership Arrangement have revitalized confidence.

It is hoped that the recent signs of an improving business environment will continue and improve further to benefit the economy of Hong Kong in general and, in turn, the property market. The Group is continuing its focus on the development of high quality properties, enhancing the value of its investment properties by upgrading them and raising the standard of tenant service in order to maintain occupancy at a high level.

The Group will continually strive to pursue new business opportunities with prudence aiming to create additional value and returns to shareholders.

## **OTHER INFORMATION**

### **Audit Committee**

These interim results have been reviewed by the Audit Committee which comprises of Mr Li Kwok Sing, Aubrey (Chairman), Mr Seto Gin Chung, John, Mr Lok Kung Chin, Hardy and Mr Yeung Kwok Kwong, a majority of whom being Independent Non-executive Directors. The Audit Committee met in April and September every year to consider the Group's annual and interim results and to review the effectiveness of the Group's financial reporting process as well as operational and internal controls.

### **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 2003.

## **Purchase, Sale or Redemption of Shares**

There was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's shares during the six months ended 30 June 2003.

*A detailed announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Group ([www.kdc.com.hk](http://www.kdc.com.hk)) in due course.*

By Order of the Board  
**Or Wai Sheun**  
*Chairman*

Hong Kong, 10 September 2003

*(Currencies are expressed in Hong Kong Dollars)*

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