



THE KWONG SANG HONG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MAY, 2003

RESULTS

The Board of Directors of The Kwong Sang Hong International Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st May, 2003 together with the comparative figures for the corresponding period last year as follows:

| | Six months ended | |
|--|-------------------------|---------------------|
| | 31st May, | |
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (restated) |
| Turnover (<i>Note 2</i>) | 122,294 | 24,940 |
| Cost of sales | <u>(124,130)</u> | <u>(15,622)</u> |
| Gross (loss) profit | (1,836) | 9,318 |
| Other revenue | 3,079 | 5,106 |
| Selling and marketing expenses | (567) | (1,423) |
| Administrative expenses | (4,947) | (4,723) |
| Other operating expenses (<i>Note 5</i>) | <u>(5,593)</u> | <u>(6,716)</u> |
| (Loss) profit from operations | (9,864) | 1,562 |
| Finance costs | (4,395) | (805) |
| Investment (loss) income (<i>Note 6</i>) | (1) | 3,923 |
| Other losses (<i>Note 7</i>) | (87,788) | (3,869) |
| Share of results of associates | <u>1,134</u> | <u>(1,572)</u> |
| Loss before taxation | (100,914) | (761) |
| Taxation (<i>Note 8</i>) | <u>1,340</u> | <u>(3,582)</u> |
| Loss after taxation | (99,574) | (4,343) |
| Minority interests | <u>3,900</u> | <u>718</u> |
| Loss transfer to reserves | <u>(95,674)</u> | <u>(3,625)</u> |
| Loss per share (<i>Note 9</i>) | | |
| Basic | <u>(9.97) cents</u> | <u>(0.38) cents</u> |
| Interim dividend per share | <u>—</u> | <u>—</u> |

Notes:

1. Basis of presentation and comparative figures

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th November, 2002, except as described below.

During the period, the Group has adopted SSAP 12 (Revised) “Income Taxes” in advance of its effective date. The principal effect of the implementation of the revised standard is in relation to deferred tax. It requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the condensed financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has resulted in an increase of accumulated losses of HK\$19,807,000 as at 1st December, 2002.

2. Turnover

Turnover represents the aggregate of the amounts received and receivable from sales of properties, property rental income and cosmetics goods sold to outside customers less returns.

3. Segmental information

Business segments

| | Property development | | Property leasing | | Cosmetics | | Other operations | | Consolidated | |
|--------------------------------|----------------------|----------------|------------------|---------------|------------------|----------------|------------------|--------------|------------------|----------------|
| | Six months ended | | Six months ended | | Six months ended | | Six months ended | | Six months ended | |
| | 31st May, | | 31st May, | | 31st May, | | 31st May, | | 31st May, | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | | | | | | | (restated) |
| Segment revenue | <u>105,963</u> | <u>9,183</u> | <u>13,929</u> | <u>12,629</u> | <u>2,402</u> | <u>3,128</u> | <u>-</u> | <u>-</u> | <u>122,294</u> | <u>24,940</u> |
| Segment result | <u>(12,235)</u> | <u>(2,578)</u> | <u>8,764</u> | <u>9,746</u> | <u>994</u> | <u>727</u> | <u>-</u> | <u>-</u> | <u>(2,477)</u> | <u>7,895</u> |
| Unallocated corporate expenses | | | | | | | | | <u>(7,387)</u> | <u>(6,333)</u> |
| (Loss) profit from operations | | | | | | | | | <u>(9,864)</u> | <u>1,562</u> |
| Finance costs | | | | | | | | | <u>(4,395)</u> | <u>(805)</u> |
| Investment (loss) income | | | | | | | | | <u>(1)</u> | <u>3,923</u> |
| Other losses | <u>(87,237)</u> | <u>(3,868)</u> | <u>(551)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1)</u> | <u>(87,788)</u> | <u>(3,869)</u> |
| Share of results of associates | <u>(359)</u> | <u>(23)</u> | <u>930</u> | <u>-</u> | <u>(27)</u> | <u>(1,073)</u> | <u>590</u> | <u>(476)</u> | <u>1,134</u> | <u>(1,572)</u> |
| Loss before taxation | | | | | | | | | <u>(100,914)</u> | <u>(761)</u> |
| Taxation | | | | | | | | | <u>1,340</u> | <u>(3,582)</u> |
| Loss after taxation | | | | | | | | | <u>(99,574)</u> | <u>(4,343)</u> |

3. Segmental information – *continued*

Geographical segments

| | Revenue by geographical markets Six months ended 31st May, | | Contribution to (loss) profit from operations Six months ended 31st May, | |
|--|---|---------------|---|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 111,902 | 16,514 | (9,031) | 1,008 |
| Elsewhere in the People's Republic of China ("PRC") | 10,392 | 8,426 | 6,554 | 6,887 |
| | <u>122,294</u> | <u>24,940</u> | (2,477) | 7,895 |
| Unallocated corporate expenses | | | <u>(7,387)</u> | <u>(6,333)</u> |
| (Loss) profit from operations | | | <u>(9,864)</u> | <u>1,562</u> |

4. Staff expenses and depreciation

| | Six months ended 31st May, | |
|----------------------------------|-------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Staff expenses | | |
| – Selling and marketing expenses | (34) | (130) |
| – Administrative expenses | (1,976) | (2,434) |
| – Directors' emoluments | (471) | (402) |
| | <u>(2,481)</u> | <u>(2,966)</u> |
| Depreciation | | |
| – Selling and marketing expenses | – | (48) |
| – Administrative expenses | (63) | (22) |
| | <u>(63)</u> | <u>(70)</u> |

5. Other operating expenses

| | Six months ended 31st May, | |
|---|-------------------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Allowances on receivables | (1,622) | (4,870) |
| Legal expenses in respect of lawsuits | (3,898) | (1,846) |
| Loss on disposal of investment properties | (73) | – |
| | <u>(5,593)</u> | <u>(6,716)</u> |

6. Investment (loss) income

| | Six months ended 31st May, | |
|---|---------------------------------------|-------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unrealised holding (loss) gain on other investments | (806) | 1,408 |
| Interest income | 805 | 1,509 |
| Dividend income – unlisted investment | – | 1,006 |
| | <u> </u> | <u> </u> |
| | <u>(1)</u> | <u>3,923</u> |

7. Other losses

| | Six months ended 31st May, | |
|---|---------------------------------------|-----------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Impairment loss on interests in associates – amounts due from associates | <u>(87,788)</u> | <u>(3,869)</u> |

8. Taxation

| | Six months ended 31st May, | |
|--------------------------------|---------------------------------------|-------------------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> (restated) |
| The credit (charge) comprises: | | |
| Deferred tax | <u>(490)</u> | <u>(2,696)</u> |
| Current tax | | |
| Company and subsidiaries | | |
| – Hong Kong | | |
| current period | (578) | (796) |
| overprovision in prior years | <u>2,542</u> | <u>5</u> |
| | 1,964 | (791) |
| – Other than Hong Kong | <u>(93)</u> | <u>–</u> |
| | <u>1,871</u> | <u>(791)</u> |
| Associates | | |
| – Hong Kong | (103) | (80) |
| – Other than Hong Kong | <u>62</u> | <u>(15)</u> |
| | <u>(41)</u> | <u>(95)</u> |
| | <u>1,340</u> | <u>(3,582)</u> |

8. Taxation – continued

Hong Kong Profits Tax has been provided for at the rate of 17.5% (six months ended 31st May, 2002: 16%) on the estimated assessable profits for the period. Taxation on profits of subsidiaries and associates arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised.

9. Loss per share

The calculation of the basic loss per share is based on the loss transfer to reserves for the period of HK\$95,674,000 (six months ended 31st May, 2002 (restated): HK\$3,625,000) and on 959,899,416 (as at 31st May, 2002: 959,899,416) ordinary shares in issue throughout the period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the period (2002: Nil).

BUSINESS REVIEW

Turnover for the six months ended 31st May, 2003, which was derived from cosmetic trading, property rental and property trading, amounted to HK\$122.3 million, representing a 391.2% increase as compared with the same period last year. The increase was mainly attributable to the property trading, which included the sales of Greenville Residence in Yuen Long with over 90% units sold and several units in Tin Wan Court in Aberdeen. A total sales proceeds of HK\$104.9 million was recorded. Gross rental income for the six months ended 31st May, 2003 amounted to HK\$15.0 million, comprising rental from investment properties and properties held for sale of HK\$13.9 million and HK\$1.1 million respectively. The rental revenue was generated mainly from Hing Wai Centre in Aberdeen and Peregrine Plaza in Shanghai, contributing over 80% of the total gross rental income. In times of the Severe Acute Respiratory Syndrome (SARS) outbreak, the sale of cosmetic trading decreased by 22.6% to HK\$2.4 million as compared with HK\$3.1 million for the same period last year.

Despite an increase in turnover, the Group recorded HK\$9.9 million loss from operations as compared to HK\$1.6 million profit from operations for the same period last year. This was mainly attributable to the loss on sales of properties amounted to HK\$12.3 million during the current period. Other revenue for the six months ended 31st May, 2003 decreased by HK\$2.0 million to HK\$3.1 million.

The Group recorded interest income of HK\$0.8 million and a loss from investments in securities of HK\$0.8 million for the six months ended 31st May, 2003. For the same period last year, interest income of HK\$1.5 million and profit from investments in securities of HK\$1.4 million, together with dividend of HK\$1.0 million were recorded.

The Group recognised impairment loss on amounts due from associates of HK\$87.8 million for the six months ended 31st May, 2003 as compared to HK\$3.9 million for the same period last year. The impairment loss was mainly due to a loss recognised on write-down of a redevelopment project at Tai Yuen Street/Wanchai Road held by an associate.

NET ASSET VALUE

The Group's total net assets as at 31st May, 2003 amounted to HK\$1,261.8 million, a decrease of HK\$95.8 million or 7.1% as compared with the value of HK\$1,357.6 million (restated) as at 30th November, 2002. Total net asset value per share was HK\$1.31 (30th November, 2002 (restated): HK\$1.41). The decrease mainly reflected the loss of HK\$95.7 million sustained for the six months ended 31st May, 2003.

DEBT AND GEARING

As at 31st May, 2003, the Group's bank and other borrowings increased to HK\$441.5 million (30th November, 2002: HK\$327.9 million), of which HK\$51.1 million was payable within one year and HK\$390.4 million was payable after one year. HK\$269.7 million of the borrowings was secured while the remaining HK\$171.8 million was unsecured. Bank balances and cash amounted to HK\$23.6 million (30th November, 2002: HK\$14.4 million), resulting in net borrowings of HK\$417.9 (30th November, 2002: HK\$313.5 million).

Total debt to equity ratio was 35% (30th November, 2002 (restated): 24.2%), which is expressed as a percentage of bank and other borrowings over the total net assets of HK\$1,261.8 million (30th November, 2002 (restated): HK\$1,357.6 million). The net debt to equity ratio was 33.1% (30th November, 2002 (restated): 23.1%), being a percentage of net borrowings over the total net assets. The increase in debt was due to the increase in borrowings for financing of development projects.

As at 31st May, 2003, the Group's borrowings were wholly denominated in Hong Kong Dollars and carried at interest rates calculated with reference to prime rate and Hong Kong Interbank Offered Rate. The Group did not have any financial instruments used for hedging purpose.

Nearly all of the Group's income were denominated in Hong Kong or United States Dollars, RMB net income was minimal. No hedging for non-Hong Kong Dollars assets or investment was made.

PLEDGE OF ASSETS

As at 31st May, 2003, the Group's investment properties and properties held for development with an aggregate book value of HK\$963.4 million (30th November, 2002: HK\$1,018.6 million) were pledged to secure general banking facilities of the Group. The contingent liabilities of the Group in respect of guarantees given to banks and financial institutions for general facilities made available to an associate and an investee company as at 31st May, 2003 were HK\$60.6 million (30th November, 2002: HK\$62.3 million).

FINANCIAL AND INTEREST INCOME/EXPENSES

Interest income for the six months ended 31st May, 2003 decreased by 46.7% to HK\$0.8 million over HK\$1.5 million for the same period last year. This was mainly due to the decrease in bank interest income earned. Interest capitalized for the six months ended 31st May, 2003 was HK\$2.1 million as compared to HK\$0.4 million for the same period last year. Interest expenses charged to the income statement increased to HK\$4.4 million from HK\$0.8 million for the same period last year. The Group accordingly recorded a net interest expense in the amount of HK\$3.6 million for the six months ended 31st May, 2003 as compared to a net interest income of HK\$0.7 million for the same period last year.

REMUNERATION POLICIES

During the period under review, the Group employed a total of 17 staff. Remuneration packages comprised salary and year-end bonuses based on individual merits. Details of the share option scheme will be disclosed in the Group's annual report for the year ending 30th November, 2003.

PROPERTY

Hong Kong

Despite the outbreak of the SARS during the period under review, the Group managed to achieve encouraging sales results in the residential property market. As of 31st May, 2003, 60 flats and 54 car parking spaces in **Greenville Residence** in Yuen Long were sold, leaving 4 flats and 42 car parking spaces remain unsold. This project generated sales proceeds of HK\$96.7 million. Sales performance of **Tin Wan Court** in Aberdeen was satisfactory, for the six months ended 31st May, 2003, revenue of HK\$8.2 million was recorded, 3 residential units remain unsold.

Demand for office space is still weak. However, the Group was able to dispose of 14,087 square feet of office space in **Star House** in Tsimshatsui this January, generating sales proceeds of HK\$22.5 million.

The Group was pleased to achieve a moderate rise in rental income in the industrial properties, though the market remained generally sluggish throughout the period. Gross rental income of **Hing Wai Centre** in Aberdeen increased by 7.5% compared to the same period last year.

Foundation works of the Group's wholly-owned redevelopment project comprising 960 serviced apartment units at **Yeung Uk Road**, Tsuen Wan are in progress and expected to be completed by the third quarter of 2003. The whole development is scheduled for completion in the last quarter of 2005.

In March 2003, the Group acquired a site at Lot No.1861 in **D.D. No.100** at Sheung Shui. The site will be developed into a residential villa complex comprising 78 houses with a total gross floor area of about 153,860 square feet. Approval was obtained in May 2003 for the master layout plan and the building plan. Construction works are scheduled to commence in the third quarter of 2003. It is expected that the project will be completed in the last quarter of 2004.

As for the redevelopment project undertaken with the Urban Renewal Authority at **Tai Yuen Street/Wanchai Road**, in which the Group holds a 25% interest, basement works at Site A of Phase 1 are in progress. The basement works is expected to be completed in November 2003 and superstructure works will commence in December 2003. For Site B of Phase 1, superstructure works has commenced in August 2003. Site A of Phase 1 will consist of 480 residential units in two towers, while Site B will consist of one tower of 172 residential units. Phase 1 is scheduled for completion in mid-2005. Following the agreement reached with the Lands Department in March 2003, land grant documents were executed in June 2003. Phase 2 will be a high-rise office building and is scheduled for completion in 2008.

Mainland China

Peregrine Plaza (90.3% interest) in Shanghai continues to generate stable and recurrent income to the Group. Located in one of the most prestigious commercial districts in Shanghai, namely, Huaihai Zhong Road, this 23-storey office/shopping complex comprises 15,330 square metres gross floor area of office space, 6,815 square metres gross floor area of retail shop space and 72 car parking spaces giving a total gross floor area of 24,812 square metres. Out of the total gross floor area, 313 square metres of office space had been sold. As at June 2003, occupancy rates of the office and retail shop space were pleasingly improved to 95% and 93% respectively.

For the dispute arising from the investment in **Shuohu Court** (75% interest) in Wuhan, the Group dissents from the judgment delivered by the Supreme People's Court of the PRC (the "Supreme Court") on 28th May, 1998 and has lodged an appeal for re-trial. Hearings were twice conducted on 23rd May and 14th June, 2002. At present, the Group is waiting for the judgment to be delivered by the Supreme Court on re-trial.

Asian Region

Somerset Chancellor Court (13.4% interest) in Ho Chi Minh City, comprising offices and serviced apartments, was satisfactorily rented out.

COSMETICS

Given the difficult business environment as a result of the SARS outbreak, our sales turnover decreased by 22.6% for the six months under review as compared to the corresponding period last year.

The drop in sales was mainly due to the decline in export sales, recorded a drop of approximately 55%. Local wholesale was satisfactory, attributable to the seasonal promotions held in April. Our sales in shops, though recorded a 38% decrease compared with that of last year, increased in May 2003 by 18% in comparison with April 2003. Our concerted effort has contributed to our improving sales, indicative of gradual recovery after the containment of SARS.

Starting from June, a series of promotional campaigns have been launched, such as MTR stations and magazines advertisements. The plan to launch new toiletry products is ongoing. In the coming few months, our target is to increase more sales locations to better serve our customers and to boost sales. Some department stores have already joined as our new sales outlets. In July 2003, a new shop in Yuen Long and a promotion counter in Tsimshatsui were opened. In the long run, we plan to develop a new tailor-made skin care products line to meet increasing customers' needs.

PROSPECTS

The signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in June 2003 will facilitate trade and investment between Hong Kong and the Mainland. We expect that with CEPA the recovery of Hong Kong economy will be speeded up and the Group will be benefited in the near future. Looking ahead, the Group will continue to focus on completing the development projects on hand and consolidate its strength for future development and investment.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 31st May, 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

APPRECIATION

I take this opportunity to thank our shareholders for their support and my fellow directors and our staff for their hard work during the period.

On behalf of the Board
Thomas Lau, Luen-hung
Chairman

Hong Kong, 18th August, 2003

Remarks: All the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website in due course.

*Website: <http://www.kwongsanghong.com.hk>
<http://www.iprasia.com/listco/ksh>*

“Please also refer to the published version of this announcement in The Standard”.