

# THE KWONG SANG HONG

INTERNATIONAL LIMITED

## THE KWONG SANG HONG INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 189)**

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MAY, 2004

#### 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, 2004 together with the comparative figures for the corresponding period last year as follows:

#### Condensed Consolidated Income Statement

		<b>Six months ended 31st May,</b>	
	<i>Notes</i>	<b>2004 HK\$'000 (Unaudited)</b>	<b>2003 HK\$'000 (Unaudited)</b>
Turnover	2	20,367	122,294
Cost of sales		(7,196)	(124,130)
Gross profit (loss)		13,171	(1,836)
Other operating income	4	6,252	3,079
Selling and marketing expenses		(818)	(567)
Administrative expenses		(3,612)	(4,947)
Other operating expenses	6	(6,554)	(5,593)
Profit (loss) from operations		8,439	(9,864)
Finance costs	7	(2,384)	(4,395)
Investment income (loss)	8	2,771	(1)
Other gain (loss)	9	158	(87,788)
Share of results of associates		(35)	1,134
Profit (loss) before taxation		8,949	(100,914)
Taxation	10	(2,738)	1,340
Profit (loss) after taxation		6,211	(99,574)
Minority interests		219	3,900
Profit (loss) attributable to shareholders		6,430	(95,674)
Earnings (loss) per share	11		
Basic		0.67 cents	(9.97) cents
Interim dividend per share		-	-

Notes:

## 1. Basis of presentation and principal accounting policies

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and 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”).

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain 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, 2003.

## 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. Segment information

### Business segments

	Property development		Property leasing		Cosmetics		Other operations		Consolidated	
	Six months ended 31st May, 2004		Six months ended 31st May, 2003		Six months ended 31st May, 2004		Six months ended 31st May, 2003		Six months ended 31st May, 2004	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>2,136</u>	<u>105,963</u>	<u>16,075</u>	<u>13,929</u>	<u>2,156</u>	<u>2,402</u>	<u>-</u>	<u>-</u>	<u>20,367</u>	<u>122,294</u>
Segment result	<u>(1,667)</u>	<u>(12,235)</u>	<u>13,134</u>	<u>8,764</u>	<u>584</u>	<u>994</u>	<u>-</u>	<u>-</u>	<u>12,051</u>	<u>(2,477)</u>
Unallocated corporate expenses									<u>(3,612)</u>	<u>(7,387)</u>
Profit (loss) from operations									8,439	(9,864)
Finance costs									(2,384)	(4,395)
Investment income (loss)									2,771	(1)
Other gain (loss)	158	(87,237)	-	(551)	-	-	-	-	158	(87,788)
Share of results of associates	(614)	(359)	-	930	(25)	(27)	604	590	<u>(35)</u>	<u>1,134</u>
Profit (loss) before taxation									8,949	(100,914)
Taxation									<u>(2,738)</u>	<u>1,340</u>
Profit (loss) after taxation									<u>6,211</u>	<u>(99,574)</u>

*Geographical segments*

	<b>Revenue by geographical market</b>		<b>Contribution to profit (loss) from operations</b>	
	<b>Six months ended 31st May,</b>		<b>Six months ended 31st May,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	7,232	111,902	4,560	(9,031)
Elsewhere in the People's Republic of China ("PRC")	13,135	10,392	7,491	6,554
	<u>20,367</u>	<u>122,294</u>	<u>12,051</u>	<u>(2,477)</u>
Unallocated corporate expenses			<u>(3,612)</u>	<u>(7,387)</u>
Profit (loss) from operations			<u>8,439</u>	<u>(9,864)</u>
<b>4. Other operating income</b>				
			<b>Six months ended 31st May,</b>	
			<b>2004</b>	<b>2003</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Included in other operating income:				
Settlement received in respect of a lawsuit			5,000	–
Forfeiture of sales deposits received			<u>30</u>	<u>2,231</u>
<b>5. Staff expenses and depreciation</b>				
			<b>Six months ended 31st May,</b>	
			<b>2004</b>	<b>2003</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Staff expenses				
– Directors' emoluments			500	471
– Other staff expenses			1,657	1,950
– Provident fund scheme contributions			<u>5</u>	<u>60</u>
			<u>2,162</u>	<u>2,481</u>
Depreciation			<u>148</u>	<u>63</u>
<b>6. Other operating expenses</b>				
			<b>Six months ended 31st May,</b>	
			<b>2004</b>	<b>2003</b>
			<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for litigation claims			3,466	–
Allowance for loans receivable			2,371	1,622
Legal expenses in respect of lawsuits			717	3,898
Loss on disposal of investment properties			<u>–</u>	<u>73</u>
			<u>6,554</u>	<u>5,593</u>

**7. Finance costs**

	<b>Six months ended 31st May,</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings		
– wholly repayable within five years	3,355	6,451
– wholly repayable after five years	33	–
Other borrowing costs	695	9
	<u>4,083</u>	<u>6,460</u>
<i>Less: Amount capitalised</i>	<u>(1,699)</u>	<u>(2,065)</u>
	<u><u>2,384</u></u>	<u><u>4,395</u></u>

**8. Investment income (loss)**

	<b>Six months ended 31st May,</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	699	805
Write-back of allowance for amounts due from an investee company	2,094	–
Dividend income – unlisted investments	382	–
Unrealised holding loss on other investments	(404)	(806)
	<u>2,771</u>	<u>(1)</u>

**9. Other gain (loss)**

	<b>Six months ended 31st May,</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss written-back (recognised) on amounts due from associates	<u>158</u>	<u>(87,788)</u>

## 10. Taxation

	Six months ended 31st May,	
	2004 HK\$'000	2003 HK\$'000
The (charge) credit comprises:		
<i>Current tax</i>		
The Company and subsidiaries		
– Hong Kong		
current period	(188)	(578)
prior years	7	2,542
– Other than Hong Kong	(124)	(93)
	<u>(305)</u>	<u>1,871</u>
Associates		
– Hong Kong	(111)	(103)
– Other than Hong Kong	–	62
	<u>(111)</u>	<u>(41)</u>
	<u>(416)</u>	<u>1,830</u>
<i>Deferred tax</i>		
The Company and subsidiaries		
– Hong Kong		
current period	629	1,725
attributable to change in tax rate	–	124
– Other than Hong Kong	(2,951)	(2,339)
	<u>(2,322)</u>	<u>(490)</u>
	<u>(2,738)</u>	<u>1,340</u>

Hong Kong Profits Tax has been provided for at the rate of 17.5% (six months ended 31st May, 2003: 17.5%) 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 rates that are expected to be applied in the period when the liability is settled or the asset is realised.

## 11. Basic earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders for the six months ended 31st May, 2004 of HK\$6,430,000 (six months ended 31st May, 2003: loss attributable to shareholders of HK\$95,674,000) and on 959,899,416 (six months ended 31st May, 2003: 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 (2003: nil).

## **BUSINESS REVIEW**

### **Results**

Profit attributable to shareholders for the six months ended 31st May, 2004 amounted to HK\$6.4 million as compared with loss attributable to shareholders of HK\$95.7 million for the corresponding period last year. Earnings per share for the six months ended 31st May, 2004 was HK0.67 cents as compared with loss per share of HK9.97 cents for the same period last year.

### **Turnover**

Turnover for the six months ended 31st May, 2004, which was derived from cosmetic trading, property rental and property trading, amounted to HK\$20.4 million (six months ended 31st May, 2003: HK\$122.3 million), representing a decrease of 83.3% as compared with the same period last year. The decline was mainly attributable to the substantial decrease in sales of properties. During the current period, 1 unit with 1 car parking space of Greenville Residence in Yuen Long and 1 workshop of Kwong Kin Trade Centre in Tuen Mun were sold and a total of HK\$1.5 million sales proceeds was recorded. Whereas during the same period last year, 60 units with 54 car parking spaces of Greenville Residence as well as 4 units and 5 shops of Tin Wan Court in Aberdeen were sold with sales proceeds of HK\$104.9 million. The gross rental income for the six months ended 31st May, 2004 increased by HK\$1.7 million to HK\$16.7 million (six months ended 31st May, 2003: HK\$15.0 million). The gross rental income from investment properties and properties held for sale were HK\$16.1 million and HK\$0.6 million respectively for the current period as compared to HK\$13.9 million and HK\$1.1 million respectively for the same period last year. The rental income mainly generated from Hing Wai Centre in Aberdeen, Shun Hing Square in Shenzhen and Peregrine Plaza in Shanghai, contributing over 90% of the gross rental income. The sales of cosmetic trading decreased by 8.3% to HK\$2.2 million for the six months ended 31st May, 2004 (six months ended 31st May, 2003: HK\$2.4 million).

### **Profit (loss) from operations**

Despite the decrease in turnover, the Group recorded HK\$8.4 million profit from operations as compared to HK\$9.9 million loss from operations for the same period last year. The turnaround was primarily attributable to the decrease in loss on sales of properties. The Group incurred loss on sales of properties of HK\$0.6 million for the six months ended 31st May, 2004 over HK\$12.3 million for the same period last year. In addition, a settlement of HK\$5 million received in relation to a lawsuit was included in the profit from operations for the current period.

### **Investment income (loss)**

Investment income, which mainly comprised dividend income, interest income and gain from investments in securities, reached HK\$2.8 million for the six months ended 31st May, 2004. It mainly included dividend income of HK\$0.4 million and write-back of allowance for amounts due from an investee company of HK\$2.1 million.

## **Other gain (loss)**

The Group had written back impairment loss on amounts due from associates of HK\$0.2 million during the six months ended 31st May, 2004. Contrasting to this, the Group recognised impairment loss on amounts due from associates of HK\$87.8 million for the same period last year which was primarily due to a loss recognised on write-down of a redevelopment project at Tai Yuen Street/Wanchai Road held by an associate.

## **Financial and interest income/expenses**

Interest income for the six months ended 31st May, 2004 decreased to HK\$0.7 million from HK\$0.8 million for the same period last year. This was due to the decrease in bank interest earned at the low level of bank interest rates offered. Finance costs capitalised for the six months ended 31st May, 2004 was HK\$1.7 million over HK\$2.1 million for the same period last year. Interest expenses charged to the income statement decreased to HK\$2.4 million from HK\$4.4 million for the same period last year. The Group accordingly recorded a net interest expense in the amount of HK\$1.7 million for the six months ended 31st May, 2004 as compared with HK\$3.6 million for the same period last year. The decrease in interest expenses was mainly attributable to the lower interest costs on the new borrowings as well as the low-interest environment sustained during the current period.

## **Debt and gearing**

As at 31st May, 2004, the Group's bank and other borrowings increased to HK\$470.0 million (30th November, 2003: HK\$409.6 million), of which HK\$16.8 million was payable within one year and HK\$453.2 million was payable after one year. HK\$316.3 million of the borrowings was secured while the remaining HK\$153.7 million was unsecured. Bank balances and cash amounted to HK\$14.2 million (30th November, 2003: HK\$22.0 million), resulting in net borrowings of HK\$455.8 million (30th November, 2003: HK\$387.6 million).

Total debt to equity ratio was 36.4% (30th November, 2003: 31.9%), which is expressed as a percentage of bank and other borrowings over the total net assets of HK\$1,289.9 million (30th November, 2003: HK\$1,283.8 million). The net debt to equity ratio was 35.3% (30th November, 2003: 30.2%), 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, 2004, the Group's borrowings were wholly denominated in Hong Kong dollars and carried at interest rates calculated with reference to Hong Kong Interbank Offered Rate. The Group did not have any financial instruments used for hedging purpose.

The Group's income were mainly denominated in Hong Kong or United States Dollars and partly in RMB. No hedging for non-Hong Kong Dollars assets or investment was made.

## **Pledge of assets and contingent liabilities**

As at 31st May, 2004, the Group's pledged deposits of HK\$0.4 million (30th November, 2003: HK\$0.3 million), investment properties and properties under development for sale with an aggregate book value of HK\$1,029.4 million (30th November, 2003: HK\$985.5 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 associates and an investee company as at 31st May, 2004 were HK\$342.3 million (30th November, 2003: HK\$344.6 million).

## **Net asset value**

The Group's total net assets as at 31st May, 2004 amounted to HK\$1,289.9 million, an increase of HK\$6.1 million as compared with the value of HK\$1,283.8 million as at 30th November, 2003. The increase mainly reflected the profit of HK\$6.4 million sustained for the six months ended 31st May, 2004. Total net asset value per share was HK\$1.34 (30th November, 2003: HK\$1.34).

## **Remuneration policies**

During the period under review, the Group employed a total of 15 staff. Remuneration packages comprised salary and year-end bonuses based on individual merits.

## **Property**

### *Hong Kong*

During the period, 1 unit with 1 car parking space of Greenville Residence were sold with 2 units and 38 car parking spaces in Greenville Residence remaining to be sold. Together with the sale of 1 workshop of Kwong Kin Trade Centre, a total sale proceeds of HK\$1.5 million was recorded.

The development project at Lot No. 1861 in D.D. 100 in Sheung Shui, which was wholly owned by the Group, will be developed into a residential villa complex comprising 78 3-storey detached/semi-detached town houses with a total gross floor area of approximately 153,860 square feet. Foundation works were completed and the superstructure works are in progress. The development is expected to be completed in the fourth quarter of 2004. The Group plans to launch the pre-sale of the project in the fourth quarter of 2004.

Yeung Uk Road redevelopment project was wholly owned by the Group. This 56-storey development will comprise 960 service apartment units with restaurants, shops, car parking spaces, and full clubhouse facilities with swimming pool. The total gross floor area of the whole development is about 585,600 square feet. Foundation works were completed. Superstructure works are in progress and are targeted for completion in the fourth quarter of 2005. The Group plans to launch the pre-sale of the project in the fourth quarter of 2004.

As for the Tai Yuen Street/Wanchai Road redevelopment project undertaken with the Urban Renewal Authority in which the Group holds 25% interest, superstructure works at Site A and Site B of Phase 1 are in progress. Upon completion, Phase 1 of the project will comprise three high-rise residential towers with about 652 residential units and a total gross floor area of about 510,752 square feet. In February 2004, planning approval was obtained to change the use of Phase 2 from office to residential. Under the residential scheme, there will be a high-rise residential tower with about 252 residential units and a total gross floor area of about 159,727 square feet. Phase 1 is scheduled for completion in the second half of 2005. It is planned that Phase 1 will be offered for pre-sale by the end of 2004.

Rental income contributed from Hing Wai Centre and Kwong Kin Trade Centre remained stable, generating a total gross rental of HK\$3.4 million for the six months ended 31st May, 2004 (six months ended 31st May, 2003: HK\$3.7 million).



## *Mainland China*

Peregrine Plaza (100% interest) continues to perform well in rental contribution. Located in one of the most prestigious commercial districts in Shanghai, 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. Apart from 313 square metres of office space sold, the remaining portion of the property is for leasing purpose as a long-term investment for the Group. As at 31st May, 2004, occupancy rates of the office and retail spaces stood high at 99% and 91% respectively.

The Group holds 100% interest of the 50th floor of Shun Hing Square. It is a commercial property located in one of the prime commercial districts in Shenzhen with a total gross floor area of 2,161 square metres. As at 31st May, 2004, the property was fully let.

For the dispute of the investment in Shuohu Court (75% interest) in Wuhan, the Group disputes the judgement delivered by the Supreme People's Court of the PRC on 28th May, 1998 and has lodged an appeal for re-trial. The appeal was formally accepted on 14th March, 2002 and hearing was conducted twice on 23rd May, 2002 and 14th June, 2002. At present, the Group is waiting for the Court's judgement on the re-trial.

## *Asian Region*

Somerset Chancellor Court in Ho Chi Minh City of Vietnam in which the Group has 13.4% interest, comprising offices and serviced apartments, was satisfactorily rented out.

## **Cosmetics**

The Group's sales turnover of cosmetic trading for the six months ended 31st May, 2004 decreased by 8.3% as compared to the same period last year. Demand from wholesale customers declined in the first half of 2004.

New series of makeup products were introduced in the market this summer and customer responses are encouraging. Other new products including skincare series will be marketed in the coming fall and winter, offering a more comprehensive range of products to our customers. Starting from this summer, the Group has been active in conducting a series of advertising campaigns to showcase the "Two Girls" products through television programme sponsorship and magazine advertisements. We are benefited from the improved local retail market due to the influx of individual travellers from the Mainland China. The Group will further expand sales counters in prime shopping zones, department stores and beauty centers. Apart from focusing on the revenue growth through developing new products, the Group will also continue to strengthen cost control measures.

## **PROSPECTS**

The property development projects of the Group are progressing well as scheduled, with all the projects are targeted for pre-sale in the fourth quarter of 2004. It is expected that the Group will be benefited with the significant contributions arising from the sales proceeds of these property development projects. Accompanied with the stable and recurrent rental generated from Hong Kong and the PRC properties, the Group will be able to deliver a steady and strong performance. The Group will continue to streamline the operation with strict cost control and to capture investment opportunities for further development.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 31st May, 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Group's interim report for the period ended 31st May, 2004 was unaudited, but has been reviewed by the Audit Committee and the external auditors of the Company.

Throughout the period, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that Non-executive Directors and Independent Non-executive Directors were not appointed for any specific terms, as they are subject to retirement by rotation at the Company's annual general meeting in accordance with the Bye-laws of the Company.

## **APPRECIATION**

I take this opportunity to thank our shareholders for their continued support and my fellow directors and our staff for their contributions to the Group.

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

Hong Kong, 18th August, 2004

As at the date of this announcement, the Board comprises the following directors:

*Executive Directors:*

Thomas Lau, Luen-hung  
*(Chairman)*  
Joseph Lau, Luen-hung  
Simon Lo, Lin-shing  
Wilson Cheng, Kam-biu

*Non-executive Directors:*

Gerald To, Hin-tsun  
Loretta Lau, Suk-han

*Independent Non-executive  
Directors:*

Alan Lam, Man-bun  
Phillis Loh, Lai-ping

*Remarks:*

*All the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules in force prior to 31st March, 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangements, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.*

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

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