



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

2002 INTERIM RESULTS ANNOUNCEMENT

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 2002, together with the comparative figures of 2001. These interim results have been reviewed by the Company’s audit committee and auditors. Unmodified review report of the auditors is included in the interim report to be sent to shareholders.

Consolidated income statement (unaudited)

		Six months ended 30 June	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>1</i>	210,013	238,146
Other revenue		6,678	2,542
Depreciation and amortization		(1,151)	(1,392)
Staff costs		(16,054)	(20,588)
Cost of inventories		(87,668)	(46,723)
Other operating expenses		(18,266)	(26,554)
Profit from operations		93,552	145,431
Finance costs		(2,221)	(7,149)
Share of profits less losses of associated companies		2,111	541
Profit on disposal of investment in non-trading securities		176	–
Profit on disposal of investment in an associated company		589	–
Investment revaluation reserve transferred upon distribution of The Kowloon Motor Bus Holdings Limited (“KMB”) shares		–	1,128,145
Stamp duty incurred for distribution of KMB shares		–	(3,013)
Profit before taxation		94,207	1,263,955
Taxation	<i>2</i>	(12,018)	(12,380)
Profit after taxation		82,189	1,251,575
Minority interests		(685)	(75)
Profit attributable to shareholders		81,504	1,251,500

Dividends attributable to the interim period

Special interim dividend in specie declared and distributed during the interim period in 2001 in the proportion of 4 KMB shares for every 37 shares	–	1,354,550
Interim dividend declared after the interim period end of 5 cents (2001: 4 cents) per share	24,188	19,351
	24,188	1,373,901

Earnings per share	3		
Basic		16.8 cents	258.7 cents
Diluted		16.8 cents	256.6 cents

Notes:

1 Segment information

	<u>Group turnover</u>		<u>Contribution to profit from operations</u>	
	<u>Six months ended 30 June</u>		<u>Six months ended 30 June</u>	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
<i>(a) Business segments</i>				
<u>Continuing operations</u>				
Property investment	87,878	113,570	83,917	103,532
Property development	85,894	–	10,740	(10,406)
Investment in non-trading securities	1,760	66,744	1,742	66,412
Securities trading	19,117	26,786	298	5,248
Film distribution	7,675	4,691	4,835	902
Other business	4,938	10,236	974	3,074
	207,262	222,027	102,506	168,762
<u>Discontinuing operations</u>				
Trading of goods	2,751	16,119	(101)	(1,544)
	210,013	238,146	102,405	167,218
Unallocated group expenses			(8,853)	(21,787)
			93,552	145,431
<i>(b) Geographical segments</i>				

	<u>Group turnover</u>	
	<u>Six months ended 30 June</u>	
	2002 HK\$'000	2001 HK\$'000
Hong Kong	196,974	210,711
Asia	2,846	15,873
Others	10,193	11,562
	210,013	238,146

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

2 Taxation

Six months ended 30 June

	2002 HK\$'000	2001 HK\$'000
Group – Hong Kong	11,310	12,851
Associated companies – Hong Kong	143	–
– Overseas	565	(471)
	<u>12,018</u>	<u>12,380</u>

Hong Kong profits tax has been provided for at the rate of 16% on the estimated assessable profits.

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

3 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 \$81,503,539 (2001: \$1,251,499,752) and 483,767,850 ordinary shares (2001: 483,767,850 ordinary shares) in issue during the period.

For 2001, after eliminating the financial effect due to distribution in specie of KMB shares of \$1,125,132,764 and dividend received on KMB shares distributed of \$65,374,034, the profit attributable to ordinary shareholders was adjusted to \$60,992,954. The adjusted earnings per share was 12.6 cents.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of \$81,503,539 (2001: \$1,251,499,752) and the weighted average of 484,068,561 ordinary shares (2001: 487,741,337 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.

For 2001, after eliminating the financial effect due to distribution in specie of KMB shares of \$1,125,132,764 and dividend received on KMB shares distributed of \$65,374,034, the profit attributable to ordinary shareholders was adjusted to \$60,992,954. The adjusted diluted earnings per share was 12.5 cents.

4 Commitments

The Group had the following outstanding commitments on future development expenditure :

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Contracted for	<u>515,813</u>	<u>36,820</u>
Authorized but not contracted for	<u>315,947</u>	<u>117,023</u>

INTERIM DIVIDEND

The Board of Directors has declared an interim dividend of HK\$5 per share for the financial year ending 31 December 2002, payable on 16 October 2002 to shareholders whose names appear on the Register of Members of the Company on 8 October 2002. In 2001, a special interim dividend in specie of 4 shares of KMB for every 37 shares of the Company held (equivalent to a dividend of HK\$2.8 per share) and a second interim dividend of HK\$4 per share were paid to shareholders. The amount of the final dividend for the current year will be decided when the results for the year are known.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 7 October 2002 to Tuesday, 8 October 2002, both dates inclusive, during which period no transfer of shares will be registered. 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 Friday, 4 October 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

On 18 December 2001, 51.5% of the shares of the Company were acquired by Intellinsight Holdings Limited ("IHL"), a wholly-owned subsidiary of Polytec Holdings International Limited, which in January 2002 made a mandatory unconditional cash offer for the remaining shares and share options of the Company pursuant to the Hong Kong Code on Takeovers and Mergers. When the offer closed on 7 February 2002, the proportion of shares in the Company in public hands was below the minimum public float requirement of 25% as prescribed under Rule 8.08 of the Listing Rules. By 15 May 2002, IHL had successfully completed a series of placings of shares to independent third parties, thereby reducing its holding in the Company to 353,023,083 shares or 72.97%. Since then, 130,744,767 shares or 27.03% of the issued share capital of the Company have been in public hands and the requirement of Rule 8.08 of the Listing Rules has been fulfilled.

Reflecting the acquisition of control of the Company by IHL, 9 new directors were appointed in January 2002 and all except one of the former directors had resigned by April 2002.

The new Board has decided to focus the Group's business on property development and investment. Accordingly, the Group acquired from Polytec Holdings International Limited a portfolio of property interests at an aggregate cost of \$857.1 million. The acquisition was a connected party transaction under the Listing Rules and was approved by independent shareholders at an extraordinary general meeting held on 15 April 2002. The acquisition added approximately 2 million sq. ft. of developable area to the Group's existing property portfolio by way of four sites, principally for residential development, in North Street, Kennedy Town, Hong Kong; in Tong Yan San Tsuen (Phases I and II), Yuen Long, New Territories and at 377 Prince Edward Road, Kowloon City, Kowloon, together with the exclusive rights to develop a real estate project at Ngau Chi Wan, Choi Hung, Kowloon. Further information about these opportunities is given later in this Review.

In order to boost rental income, the second arm of the Group's newly defined core business, the Group acquired retail space in the Commercial Podium of Mandarin Plaza (also known as New Mandarin Plaza) in Tsimshatsui East in March 2002 for \$77 million and 51 retail shops in the shopping arcade of Sino Centre, Mongkok in June 2002 for \$147 million. These acquisitions are discussed further below.

In accordance with the Group's new business focus, its interest in Harvest City Limited, a bus operating associated company, was sold in March 2002 for \$25.5 million.

Certain cost saving measures have been effected during the period under review, including a reduction in staff numbers and the removal of the provision in the Company's Articles of Association which provided directors with 2% of annual net profits as remuneration for their services.

Property Investment

Effects of the global economic downturn continue to be seen. Cost savings are among the top priorities of most companies in Hong Kong, causing increasing downward pressure on rental rates.

The Group disposed of two investment properties (Chong Kin Commercial Building in Mongkok and retail space at Sceneway Garden Arcade, Lam Tin) during the second half of 2001 before control was acquired by IHL causing a reduction of \$14.5 million in rental income for the period under review. The gross rental income generated by the Group's investment property portfolio in the six months to 30 June 2002 was \$87.9 million, a drop of 21.7% when compared with that for the first half of 2001.

Commercial properties

Due to quality management and its prime location, the Group's flagship property, Pioneer Centre in Mongkok, which provides office and retail space, has been able to retain most of the tenants whose leases were up for renewal during the period under review as well as attracting new occupants. Both the office and retail sectors recorded improved occupancy rates of 98.9% and 96% respectively as at 30 June 2002 when compared with 95.4% and 95.5% respectively as at 31 December 2001. However, despite an improvement in occupancy, rental income declined to \$80 million in the first half of 2002, 11.9% less than that for the corresponding period in 2001, due to a drop in rents achieved on renewal at current market rates of certain major office and retail tenancies.

Though the occupancy rate of the 20th Floor of Argyle Centre in Mongkok dropped from 95.3% at 31 December 2001 to 90.5% at 30 June 2002, average occupancy for the period under review was maintained at a satisfactory level and rental income generated of \$1.3 million was slightly above that of the corresponding period in 2001. This was largely due to the success in improving rental rates upon tenancy renewals which compensated for the decline in occupancy.

The Group purchased a majority portion of the retail space on the 1st Floor of New Mandarin Plaza in Tsimshatsui East on 27 March 2002. The property generates an income stream of around \$0.75 million per month, representing an 11.7% rate of return at the occupancy rate of 90.6% as at 30 June 2002. The other new investment of 51 retail shops in Sino Centre, Mongkok, acquired on 24 June 2002, has an occupancy rate of 89.4% and an income of about \$1.1 million per month, representing a 9% rate of return.

The rental income from New Mandarin Plaza and Sino Centre currently represents around 11% of the Group's total rental income on an annualized basis. The full effect of this contribution will be reflected in the results for the next six months.

Residential properties

The economic recession has also adversely affected the performance of The Elgin in Central, a block of serviced apartments, as many corporate clients have tightened their budgets and reduced bookings. The average occupancy rate for the first half of 2002 was 52% as compared to an average rate of 79% for the same period last year. Total rental income generated during the period under review was \$1.2 million, representing a drop of 46.8% when compared with the corresponding period in 2001.

Car parks

Demand for car parking space continues to drop in light of the weak economy and high unemployment rate. Use of private cars as a means of transportation is within the list of “chop-off” items under the conservative spending attitude of the general public. Income from the car park at Merit Industrial Centre, To Kwa Wan, an area with an ample supply of parking spaces, dropped to \$1.1 million in the first half of year 2002, representing a 26.7% decrease when compared with the figure for the first half of 2001. On the other hand, the income generated from the car park at Manor Centre remained steady, performing in accordance with the licence agreement which was renewed at the beginning of 2001 for a term of two years at fixed rentals with sharing of turnover. Income from the car park at Manor Centre, Shum Shui Po, was \$2.1 million for the first half of 2002, 4.6% more than that for the same period last year.

Property Development

The 104 residential units of Phase 1 Recours La Serre, a low rise housing project at Tong Yan San Tsuen, Yuen Long, were officially launched to the market on 11 May 2002. Despite difficult market conditions, all Phase 1 units were sold out by 28 July 2002 due to the high quality of the development and successful marketing strategies, generating sales proceeds of about \$260 million. Sales concluded by 30 June 2002 produced profit of \$11 million, about 13.5% of the Group’s total profit for the period under review.

The Group currently has ongoing four development projects in Hong Kong. Three of them are single residential blocks and are located in North Street, Kennedy Town, and Robinson Road in Hong Kong and Prince Edward Road in Kowloon. The fourth is a major and comprehensive development project in Ngau Chi Wan, Choi Hung, Kowloon.

Construction of the superstructure of the 25-storey residential tower (gross floor area: about 34,690 sq. ft.) at 12A North Street, Kennedy Town is underway. Target completion of the project has been scheduled for the 2nd half of 2003.

The project in Prince Edward Road is a single residential tower and land premium is under negotiation.

The block at 31 Robinson Road will provide a 30-storey residential tower (gross floor area: about 128,084 sq. ft.) with car park and clubhouse facilities. Foundation works have been completed and the superstructure works will be commenced shortly. It is expected that the project will be completed in the 1st half of 2004.

The development project in Ngau Chi Wan is at the design stage and is scheduled to commence at the end of 2003 or beginning of 2004.

Property Management

During the period under review, Country House Property Management Limited, the Group’s property management arm, managed a portfolio of 1 commercial building and 3 residential buildings. On 1 July 2002 it added Phase 1 of Recours La Serre to its portfolio.

Country House Property Management Limited’s 49% owned associated company, Easy Living Property Management Limited, has continued to provide management services for 9,704 units in Cheung Ching Estate and Cheung Hang Estate in Tsing Yi Island. Another associated company, Modern Living Property Management Limited, which was formed in October 2001, and approved by the Hong Kong Housing Authority in January 2002 to bid for property management contracts under both the restricted and open tendering systems, has recently been awarded a property management contract to manage Kwong Fuk Estate, a public housing estate with 6,192 units in Tai Po, New Territories starting in December 2002.

Securities Investment

The Group's portfolio of securities made an operating profit of \$2 million for the period under review as compared with \$71.7 million in the corresponding period last year. The substantial decrease was mainly due to the reduction of \$65.4 million in dividend income following the previously mentioned distribution in specie of 52 million shares of KMB in June 2001. Though securities activities constitute only a small part of the Group's business, it is intended to continue this operation in order to facilitate the efficient management of the Group's cashflow. As at 30 June 2002, the Group has invested a total of \$131.3 million in securities.

Financial Services

Kowloon Development Finance Limited has been actively engaged in the provision of second mortgages to purchasers of the Group's residential properties. Due to the general weak economy, the company's traditional business did not perform well during the period under review and an operating profit of \$1.2 million was recorded compared to \$2.5 million for the corresponding period last year.

Film Distribution

During the period, Golden Princess Amusement Company Limited contributed a net profit of \$3.9 million to the Group, a substantial increase as compared with the \$0.4 million profit made during the corresponding period last year. This is mainly attributable to the granting of distribution rights of certain popular films for United Kingdom and North and South America.

Golden Princess Amusement Company Limited will continue to exploit distribution opportunities in other territories for its film library.

Distribution and Sale of Footwear

The Group's 20% interest in Southern Success Corporation which is in the footwear wholesaling and retailing business, has contributed \$0.9 million (\$2.1 million was recorded for the same period last year) to the Group's profit.

Shoe-Making Machinery Trading

Further to the cessation of all the company's operations in April 2001, the Group disposed of its entire 80% interest in KDC Prologue Limited at a nominal value on 15 July 2002.

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

As at 30 June 2002, the Group's total bank borrowings amounted to \$1,601.4 million. The significant increase in bank borrowings as compared with \$302 million as of 31 December 2001 was due to the acquisition of the portfolio of property interests from Polytec Holdings International Limited, the retail space on the 1st Floor of New Mandarin Plaza and the 51 retail shops in Sino Centre, all during the first half of 2002. The debt to equity ratio increased from 10% to 50%. There are three development projects under construction, namely, North Street, Prince Edward Road and Robinson Road. Pre-sales of the development properties will be planned to generate cash inflows so as to maintain the gearing ratio at a level appropriate to the Group's business.

The Group had committed undrawn bank facilities of more than \$350 million as at 30 June 2002 which is sufficient to fulfill its obligations and commitments in the coming year. In addition, steady recurring cashflows from the Group's core investment property portfolio should provide a sound platform to finance further investments.

Interest Rate and Currency Exposure

Bank facilities are arranged on both medium and short-term bases and are geared to the Group's funding needs. All bank borrowings are arranged on a floating rate basis. Management will closely monitor the Group's exposure to interest rate risks and appropriate hedging products will be utilized, if considered necessary, to minimize the Group's exposure to interest rate fluctuations. The Group has no significant exposure to currency risk.

Pledge of Assets

As at 30 June 2002, properties of the Group with an aggregate carrying value of approximately of \$3,063.8 million were pledged to banks under fixed charges to secure general banking facilities granted to the Group.

Contingent Liabilities

The Group has given a guarantee in the amount of \$4.9 million to an insurance company in respect of a performance bond entered into by an associated company.

STAFF BENEFITS

Staff Remuneration and Training

As of 30 June 2002, the Group, including subsidiaries but excluding associates, had about 120 employees. The Group rewards employees with competitive remuneration packages that are reviewed annually based on performance. Performance based discretionary bonus are also offered. Besides providing staff with medical benefits and retirement schemes, the Group also encourages continual staff development by sponsoring different types of training and further studying programs. The Company also has a share option scheme which was approved by shareholders on 19 June 2000.

PROSPECTS

Hong Kong is currently experiencing challenging economic conditions in the wake of the global economic downturn. Most local enterprises have come under increasing pressure. Nevertheless, the residential market has shown signs of improvement in terms of transaction volume for new residential developments. With property prices remaining stable, and mortgage interest rates at historic lows, homebuyers' confidence appears to be improving to support demand for quality and good value residential units.

2002 will continue to be a volatile year. The economy in Hong Kong and worldwide will face further difficulties and challenges. However, we are confident that the Group will develop further based on its sound fundamentals. The Group will continue to expand its property development business by developing premium-quality, medium to large-scale projects with comprehensive facilities thereby enhancing its reputation as a quality developer. Thus the Group bid for and, on 30 August 2002, was awarded a joint venture residential development by the Urban Renewal Authority to develop a site at Ka Wai Man Road, Kennedy Town. Despite difficult conditions in the leasing market, the Group is confident that its diversified rental portfolio will continue to bring in steady returns to the Group over the long term.

OTHER INFORMATION

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 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

No director 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 2002.

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 website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

By Order of the Board
Or Wai Sheun
Chairman

Hong Kong, 12 September 2002

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