



KOWLOON DEVELOPMENT COMPANY LIMITED

九龍建業有限公司

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2002

RESULTS

The Board of Directors of Kowloon Development Company Limited (“the Company”) announces that profit attributable to shareholders of the Company and its subsidiary companies (the “Group”) for the year ended 31 December 2002 was \$161 million. In 2001, the Company distributed by way of a special interim dividend in specie of shares in The Kowloon Motor Bus Holdings Limited (“KMB”), causing a significant financial effect in the accounts of that year. As such, profits attributable to shareholders for the two years are not directly comparable. The following is an analysis of the Group’s adjusted profit from operations for the two years after taking into account the said distribution:

	2002 \$ million	2001 \$ million	Change \$ million
Profit from operations	201.3	229.1	-27.8 (-12.1%)
Less: Dividends from KMB shares distributed in specie as special interim dividend in 2001 included in the above	—	(65.4)	
	<u>201.3</u>	<u>163.7</u>	+37.6 (+23.0%)

Profit from the sale of all the units of Phase I, Recours La Serre, Yuen Long and the success in keeping the Group’s cost base under control were the major contributors to the \$37.6 million or 23.0% rise in the Group’s profit from operations.

Consolidated Income Statement

The audited consolidated results of the Group for the year ended 31 December 2002, together with the comparative figures of 2001 are as follows:

	Note	2002 \$'000	2001 \$'000
Turnover	2	591,157	397,896
Other revenue		7,444	5,904
Depreciation		(1,273)	(2,438)
Staff costs		(31,503)	(38,360)
Cost of inventories		(319,637)	(87,456)
Other operating expenses		(44,935)	(46,449)
Profit from operations		201,253	229,097

Finance costs		(7,580)	(10,036)
Share of profits less losses/(losses less profits) of associated companies		2,373	(416)
Profit on disposal of investment in a subsidiary company		49	–
Profit on disposal of investment in associated companies		589	688
Impairment loss on goodwill of an associated company previously charged against investment revaluation reserve		(4,000)	(15,292)
Impairment loss on investment in an associated company		–	(1,967)
Loss on disposal of investment in non-trading securities		(4,792)	(3,157)
Loss on disposal of investment properties		–	(243,119)
Investment revaluation reserve transferred upon distribution of KMB shares		–	1,128,145
Stamp duty incurred for distribution of KMB shares		–	(3,013)
Profit before taxation		187,892	1,080,930
Taxation	3	(25,326)	(21,134)
Profit after taxation		162,566	1,059,796
Minority interests		(1,541)	(1,584)
Profit attributable to shareholders		161,025	1,058,212
Dividends attributable			
Special interim dividend in specie declared and distributed in 2001 in the proportion of 4 KMB shares for every 37 shares		–	1,354,550
Interim dividend paid of 5 cents (2001: 4 cents) per share		24,188	19,351
Final dividend proposed after the balance sheet date of 20 cents (2001: 18 cents) per share		96,754	87,078
		120,942	1,460,979
Earnings per share	4		
Basic		33.3 cents	218.7 cents
Diluted		33.3 cents	217.4 cents

Notes:

1 Basis of preparation

The financial statements for the year ended 31 December 2002 have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The measurement basis used is historical cost modified by the revaluation of investment properties, and the marking to market of certain investments in securities.

2 Segment information

	Group turnover		Contribution to Group operating profit	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
(a) <i>Business segments</i>				
Continuing operations:				
Property investment	183,586	210,126	173,930	193,876
Property development	294,058	–	25,255	(9,931)
Investments in non-trading securities	2,815	76,541	2,701	69,357
Securities trading	78,322	41,163	1,956	4,949
Film distribution	16,429	24,179	10,902	12,199
Other business	13,198	17,226	4,617	(1,690)
	<u>588,408</u>	<u>369,235</u>	<u>219,361</u>	<u>268,760</u>
Discontinued operations:				
Trading of goods	2,749	28,661	(98)	(3,934)
	<u>591,157</u>	<u>397,896</u>	<u>219,263</u>	<u>264,826</u>
Unallocated group expenses			(18,010)	(35,729)
Profit from operations			<u>201,253</u>	<u>229,097</u>
			Group turnover	
			2002	2001
			\$'000	\$'000
(b) <i>Geographical segments</i>				
Hong Kong			558,832	331,874
Asia			3,168	26,521
North America			12,201	30,695
Europe			16,676	8,384
Others			280	422
			<u>591,157</u>	<u>397,896</u>

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

	2002	2001
	\$'000	\$'000
Group – Hong Kong	24,480	21,615
Associated companies		
– Hong Kong	201	165
– Overseas	645	(646)
	<u>25,326</u>	<u>21,134</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.

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 \$161,024,715 (2001: \$1,058,212,435) and 483,767,850 ordinary shares (2001: 483,767,850 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of \$161,024,715 (2001: \$1,058,212,435) and the weighted average of 483,898,016 ordinary shares (2001: 486,822,312 ordinary shares) after adjusting for the effects of dilutive potential ordinary shares in respect of share options granted.

5 Capital commitments

Capital commitments outstanding at 31 December not provided for in the accounts were as follows:

	2002 \$'000	2001 \$'000
Contracted for	<u>141,750</u>	<u>–</u>
Authorized but not contracted for	<u>–</u>	<u>2,500</u>

6 Commitments

Commitments outstanding at 31 December on future property development expenditure not provided for in the accounts were as follows:

	2002 \$'000	2001 \$'000
Contracted for	<u>81,299</u>	<u>36,820</u>
Authorized but not contracted for	<u>405,720</u>	<u>117,023</u>

DIVIDENDS

The Board of Directors recommends the payment of a final dividend of ¢20 (2001 : ¢18) per share for the financial year ended 31 December 2002 to shareholders whose names appear on the Register of Members of the Company on 21 May 2003. The proposed final dividend is expected to be paid on 22 May 2003 following approval at the Annual General Meeting to be held on 21 May 2003. The final dividend together with the interim dividend of ¢5 per share paid on 16 October 2002, gives an aggregate dividend of ¢25 per share for the year, resulting in a total dividend payment of \$120.9 million. The dividend per share paid in 2001 was \$3.02 representing a special interim dividend in specie of 4 shares of KMB for every 37 shares of the Company held (equivalent to a dividend of \$2.8 per share), a second interim dividend of ¢4 and a final dividend of ¢18 per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 13 May 2003 to Wednesday, 21 May 2003, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final 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, 12 May 2003.

CHANGE OF CONTROL AND MANAGEMENT

Intellinsight Holdings Limited ("IHL"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec"), acquired 51.5% of the shares of the Company on 18 December 2001 and made a mandatory unconditional cash offer for the remaining shares and share options of the Company in January 2002. Although less than 25% of the shares of the Company were in public hands when the offer closed on 7 February 2002, IHL reduced its holding in the Company by May 2002 to 353,023,083 shares or 72.97% by way of a series of placing of shares to independent third parties, thereby fulfilling the minimum public float requirement of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Reflecting the change of control of the Company, 9 new directors, including myself, were appointed on 16 January 2002 and all except one of the former directors had resigned by April 2002.

BUSINESS REVIEW

Since the change of management in the beginning of 2002, the Group's business has focused mainly on property development and investment.

In line with the Group's new business focus, the Group disposed of its 50% interests in Harvest City Limited, a company engaged in the provision of bus services in China, at a consideration of \$25.5 million in March 2002, and also its 80% interest in KDC Prologue Limited, which was engaged in shoe-making machinery trading, in July 2002 at a nominal value.

During the year, the Group increased the developable floor area of its landbank by approximately 2 million sq.ft. (for residential or retail and residential development) through the acquisition of a portfolio of property interests at an aggregate cost of \$857.1 million from Polytec. The transaction, being both a discloseable and connected party transaction, was approved by independent shareholders on 15 April 2002. This substantial increase in size of the landbank has secured opportunities for development and expansion for the next four to five years. Furthermore, in August 2002, the Group was awarded a joint venture residential project by the Urban Renewal Authority for a site at 33 Ka Wai Man Road, Kennedy Town with over 78,000 sq.ft. developable floor area.

Apart from the above, the Group has also actively expanded its portfolio of quality investment properties by acquiring retail space in the Commercial Podium of Mandarin Plaza (also known as New Mandarin Plaza) in Tsimshatsui East in March 2002 and retail shops in the shopping arcade of Sino Centre, Mongkok in June 2002.

A substantial portion of the Group's profit arises from steady and recurring rental income from the Group's investment properties. The investment property portfolio consists of 574,000 sq.ft. of retail, office and residential properties as well as over 300 carparking spaces.

Net profits from property development for 2002 related primarily to the completion and sale of 104 residential units and 91 carparking spaces of Phase I of Recours La Serre in Yuen Long.

FINANCIAL REVIEW

Financial Resources and Bank Borrowings

As at 31 December 2002, the Group's total bank borrowings amounted to \$1,523 million (2001: \$302 million). The significant increase in bank borrowings during 2002 was due to the acquisition of the portfolio of property interests from Polytec, the retail space on the 1st Floor of New Mandarin Plaza, the retail shops in Sino Centre and the development expenditure incurred on the Group's property interests. The debt to equity ratio increased from 10% to 47%. With the completion of the acquisition of The Bonham Mansion in early 2003 and the commencement of construction works of the Group's development projects, an increase in the Group's gearing ratio is expected but will be maintained at a level appropriate to the Group's business.

The Group had committed undrawn bank facilities of approximately \$570 million as at 31 December 2002 which is sufficient to fulfill its obligations and commitments in the coming year. Pre-sales of the Group's development projects and re-sale of The Bonham Mansion are expected to generate cash inflows during 2003.

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 is closely monitoring the Group's exposure to interest rate risks and is considering hedging some of the Group's bank borrowings to take advantage of the existing low interest rate environment. The Group has no significant exposure to currency risk as most of the Group's core activities are carried out in Hong Kong and transactions are denominated in local currency.

Pledge of Assets

As at 31 December 2002, properties of the Group with an aggregate carrying value of approximately \$3,377 million were pledged to banks under fixed charges to secure general banking facilities granted to the Group.

Contingent Liabilities

The Group has given guarantees in the amount of \$7 million to an insurance company in respect of performance bonds entered into by certain associated companies.

STAFF REMUNERATION AND TRAINING

The Group (excluding associated companies) employed around 130 employees at the year end date. The Group provides medical benefits and retirement schemes to all employees who are rewarded on a performance related basis. Apart from joining in-house training courses, employees can also apply for sponsorship when they enroll in job-related or professional training courses to enhance their competence. The Company has a share option scheme which was approved by shareholders on 19 June 2000. However, in light of changes made to Chapter 17 of the Listing Rules, the Company will seek shareholders' approval at an extraordinary general meeting to be held on 21 May 2003 to terminate the existing share option scheme and to adopt a new share option scheme that fully complies with the Listing Rules.

PROSPECTS

In light of the global economic downturn, continuing high rate of unemployment and deflation, Hong Kong is now facing unprecedented challenges. Global economic volatility is expected to continue to affect the economy of Hong Kong. Amidst these difficulties, the Group's management team and employees are ready to face the challenges ahead with confidence and dedication, and to explore new business opportunities for future growth.

With steady rental income from investment properties, the Group will strive to ensure that the occupancy of its investment properties is maintained at a satisfactory level. With regard to property sales, residential units of The Bonham Mansion at 63 Bonham Road will be launched to the market at an appropriate time in the first half of 2003; while the residential project at 12 North Street, Kennedy Town will be completed in the 4th quarter of 2003 and its units will be offered for sale in the market in the latter half of the same year. The Group will also continue to strengthen its portfolio of development and investment properties by acquiring properties with good development potential or steady returns.

Despite unfavourable conditions, the Group has been able to achieve a satisfactory performance for the year under review. I would like to take this opportunity to extend my heartfelt thanks to my fellow Directors and all staff members of the Group for their hard work and support during the year.

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 year.

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 year.

A detailed announcement of results containing all the information required by paragraphs 45(1) to 45(3) 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) and the Group (www.kdc.com.hk) in due course.

By Order of the Board
Or Wai Sheun
Chairman

Hong Kong, 9 April 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Crystal Ballroom, Basement 3, Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Kowloon, Hong Kong on Wednesday, 21 May 2003 at 11:00 a.m. for the following purposes:

- (1) To receive and consider the audited accounts and the reports of the directors and auditors for the year ended 31 December 2002.
- (2) To declare a final dividend.
- (3) To elect directors and to fix their remuneration.
- (4) To appoint auditors and to authorise the directors to fix their remuneration.

As special business, to consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions:

(5) **THAT:**

- (A) subject to paragraph (C), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be generally and unconditionally approved;
- (B) the approval in paragraph (A) shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (A), otherwise than pursuant to (i) a Rights Issue, (ii) the exercise of options granted under any share option scheme adopted by the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed the aggregate of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus (bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly; and
- (D) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, Hong Kong or any territory outside Hong Kong).

(6) **THAT:**

- (A) subject to paragraph (B) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of the Company be generally and unconditionally approved;
- (B) the aggregate nominal amount of shares which may be purchased on The Stock Exchange of Hong Kong Limited or any other stock exchange on which the securities of the Company may be listed and which is recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (A) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly;
- (C) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

- (7) **THAT** the directors of the Company be authorised to exercise the powers of the Company referred to in paragraph (A) of the resolution set out in item (5) in the Notice of this Meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (C) of such resolution.

By Order of the Board
Wai Yuk Hing, Monica
Company Secretary

Hong Kong, 9 April 2003

Notes:

- (a) The Register of Members of the Company will be closed from Tuesday, 13 May 2003 to Wednesday, 21 May 2003, both dates inclusive, during which period no transfer of shares will be registered. To qualify for the final 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, 12 May 2003.
- (b) Every member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

- (c) To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited on 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude a member from attending and voting in person if such member is subsequently able to be present.
- (d) With reference to items (5), (6) and (7) set out in this Notice, the directors wish to state that they have no immediate plans to repurchase any existing shares or to issue any new shares pursuant to the relevant mandate.

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