

THE KWONG SANG HONG

INTERNATIONAL LIMITED

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(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST MAY, 2002

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, 2002 together with the comparative figures for the corresponding period last year as follows:

	Six months ended 31st May,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover (<i>Note 2</i>)	24,940	66,848
Cost of sales	(15,622)	(56,144)
Gross profit	9,318	10,704
Other revenue	5,106	1,265
Selling and marketing expenses	(1,423)	(629)
Administrative expenses	(9,593)	(6,709)
Impairment loss recognised in respect of property held for development	–	(44,300)
Other operating expenses (<i>Note 6</i>)	(1,846)	(7,827)
Profit (loss) from operations	1,562	(47,496)
Finance costs	(805)	(679)
Investment income (<i>Note 7</i>)	3,923	13,689
Other losses (<i>Note 8</i>)	(3,869)	(1,290)
Share of results of associates	(1,572)	864
Loss before taxation	(761)	(34,912)
Taxation (<i>Note 9</i>)	(886)	24,306
Loss after taxation	(1,647)	(10,606)
Minority interests	718	(545)
Loss transfer to reserves	(929)	(11,151)
Loss per share (<i>Note 10</i>)	<u>(0.10) cents</u>	<u>(1.16) 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 under the historical cost convention, as modified for the revaluation of investment properties and other investments. 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, 2001, except as described below.

During the period, the Group has adopted the Statement of Standard Accounting Practice ("SSAP") 1 (Revised) "Presentation of Financial Statements" issued by the Hong Kong Society of Accountants in advance of their effective dates. The revised standards have introduced revised disclosure requirements which have been adopted in these condensed financial statements. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

2. Turnover

Turnover represents the aggregate of 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		Six months ended		Six months ended		Six months ended		Six months ended	
	31st May,		31st May,		31st May,		31st May,		31st May,	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>9,183</u>	<u>53,843</u>	<u>12,629</u>	<u>11,005</u>	<u>3,128</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>24,940</u>	<u>66,848</u>
Segment result	<u>(2,578)</u>	<u>(43,404)</u>	<u>9,746</u>	<u>8,437</u>	<u>727</u>	<u>742</u>	<u>-</u>	<u>-</u>	<u>7,895</u>	<u>(34,225)</u>
Unallocated corporate expenses									<u>(6,333)</u>	<u>(13,271)</u>
Profit (loss) from operations									1,562	(47,496)
Finance costs									(805)	(679)
Investment income									3,923	13,689
Other losses	(3,868)	(347)	-	(946)	-	-	(1)	3	(3,869)	(1,290)
Share of results of associates	(23)	(286)	-	-	(1,073)	(41)	(476)	1,191	<u>(1,572)</u>	<u>864</u>
Loss before taxation									(761)	(34,912)
Taxation									<u>(886)</u>	<u>24,306</u>
Loss after taxation									<u>(1,647)</u>	<u>(10,606)</u>

Geographical segments

	Revenue by geographical markets		Contribution to profit (loss) from operations	
	Six months ended 31st May,		Six months ended 31st May,	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	16,514	58,140	(4,835)	(54,257)
Elsewhere in the People's Republic of China ("PRC")	8,426	8,708	6,397	6,761
	<u>24,940</u>	<u>66,848</u>	<u>1,562</u>	<u>(47,496)</u>

4. Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Contributed surplus	Exchange reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st December, 2000	383,960	681,650	437,153	1,348	208,903	1,713,014
Exchange adjustment, net of minority interests	-	-	-	1,110	-	1,110
Share of associates' reserves movement during the year	-	-	-	173	-	173
Loss for the year	-	-	-	-	(70,972)	(70,972)
At 30th November, 2001	383,960	681,650	437,153	2,631	137,931	1,643,325
Exchange adjustment, net of minority interests	-	-	-	(52)	-	(52)
Share of associates' reserves movement during the period	-	-	-	(589)	-	(589)
Loss for the period	-	-	-	-	(929)	(929)
At 31st May, 2002	<u>383,960</u>	<u>681,650</u>	<u>437,153</u>	<u>1,990</u>	<u>137,002</u>	<u>1,641,755</u>

5. Staff expenses and depreciation

	Six months ended 31st May,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff expenses		
– Selling and marketing expenses	(130)	(119)
– Administrative expenses	(2,434)	(3,350)
	<u>(2,564)</u>	<u>(3,469)</u>
Depreciation		
– Selling and marketing expenses	(48)	(1)
– Administrative expenses	(22)	(17)
	<u>(70)</u>	<u>(18)</u>

6. Other operating expenses

	Six months ended 31st May,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of investment properties	–	56
Legal expenses in respect of lawsuits	(1,846)	(7,883)
	<u>(1,846)</u>	<u>(7,827)</u>

During the period, the legal expenses were incurred for legal disputes in respect of property development projects in Hong Kong and the PRC.

7. Investment income

	Six months ended 31st May,	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	1,509	7,610
Unrealised holding gain on other investments	1,408	5,073
Dividend income – unlisted investment	1,006	1,006
	<u>3,923</u>	<u>13,689</u>

8. Other losses

	Six months ended 31st May, 2002 HK\$'000	2001 HK\$'000
Impairment loss on amount due from associates	<u>(3,869)</u>	<u>(1,290)</u>

9. Taxation

	Six months ended 31st May, 2002 HK\$'000	2001 HK\$'000
The (charge) credit comprises:		
Company and subsidiaries		
– Hong Kong		
current period	(796)	(846)
overprovision in prior years	<u>5</u>	<u>25,283</u>
	<u>(791)</u>	<u>24,437</u>
Associates		
– Hong Kong	(80)	(121)
– Other than Hong Kong	<u>(15)</u>	<u>(10)</u>
	<u>(95)</u>	<u>(131)</u>
	<u>(886)</u>	<u>24,306</u>

Hong Kong Profits Tax has been provided for at the rate of 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. The taxation credit in 2001 mainly represents a reversal of provision made upon refund of tax paid in previous years at the final resolution of an outstanding tax dispute.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is not significant.

Deferred tax has not been recognised in respect of the surplus or deficit arising on the revaluation of investment properties and other investments as profits or losses arising on the disposal of these assets would not be assessable or allowable for tax purpose. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

10. Loss per share

The calculation of loss per share is based on the loss attributable to shareholders for the period of HK\$929,000 (period ended 31st May, 2001: HK\$11,151,000) and on the 959,899,416 (period ended 31st May, 2001: 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 (2001: Nil).

BUSINESS REVIEW

Turnover for the six months ended 31st May, 2002, which was derived from cosmetic trading, property rental and property trading, amounted to HK\$24.9 million, representing a decrease of 62.7% as compared with the same period last year. The sales of cosmetic trading recorded HK\$3.1 million for the six months ended 31st May, 2002, representing a 55.0% increase as compared with the same period last year. The increase in sales was mainly attributable to the growth of export sales and opening of a new retail outlet in Causeway Place. Gross rental income for the six months ended 31st May, 2002 amounted to HK\$13.8 million and was generated mainly from Peregrine Plaza, Shanghai, Star House and Hing Wai Centre. In addition, the sale progress of the remaining units in Tin Wan Court was satisfactory and recorded sales proceeds of HK\$8.1 million. Gross profit recorded HK\$9.3 million and decreased by 13.1% as compared with the same period last year.

The Group recorded HK\$1.6 million profit from operations for the six months ended 31st May, 2002 as compared to a loss of HK\$47.5 million for the same period last year. The turnaround was mainly attributable to an impairment loss of approximately HK\$44.3 million recognised in respect of a property development project in Hong Kong for the same period last year. Other revenue for the six months ended 31st May, 2002 increased by HK\$3.8 million and reached HK\$5.1 million. This was mainly attributable to the recognition of income from forfeiture of sales deposits from the default purchasers of The Bellevue Place during the period.

Investment income, which mainly comprised dividend income, interest income and profit from investment in securities, decreased by HK\$9.8 million to HK\$3.9 million for the six months ended 31st May, 2002. This was mainly attributable to the upward adjustment in the market price of listed securities held and sold in November 2001, as well as interest income derived from purchase of Tax Reserve Certificate recorded in the same period last year.

NET ASSET VALUE

The Group's total net assets as at 31st May, 2002 decreased slightly to HK\$1,641.8 million as compared with the value of HK\$1,643.3 million as at 30th November, 2001. Total net asset value per share was HK\$1.71 (30th November, 2001: HK\$1.71).

DEBT AND GEARING

As at 31st May, 2002, the Group's bank and other borrowings dropped by HK\$48.4 million to HK\$35.2 million (30th November, 2001: HK\$83.6 million), of which HK\$18.1 million was payable within one year and HK\$17.1 million was payable after one year. Out of the borrowings, HK\$34.1 million was secured, while the remaining HK\$1.1 million was unsecured. Cash and bank balance amounted to HK\$40.7 million (30th November, 2001: HK\$83.9 million), resulting in a net cash position of HK\$5.5 million (30th November, 2001: HK\$0.3 million).

Total debt to equity ratio was 2.1% (30th November, 2001: 5.1%), which is expressed as a percentage of bank and other borrowings over the total net assets of HK\$1,641.8 million (30th November, 2001: HK\$1,643.3 million). The decrease in debt and gearing was mainly due to repayment of bank loans from the Group's internal resources.

As at 31st May, 2002, the Group's borrowings were wholly denominated in Hong Kong dollars and carried at interest rates calculated with reference to prime rate. The majority of the Group's income were denominated in Hong Kong Dollars and United States Dollars, RMB net income was minimal. The Group did not have any financial instruments used for hedging purpose.

PLEDGE OF ASSETS

As at 31st May, 2002, the Group's investment properties with an aggregate book value of HK\$137.8 million (30th November, 2001: properties under development and investment properties of HK\$640.2 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 investee company as at 31st May, 2002 were HK\$64.5 million (30th November, 2001: HK\$66.0 million).

FINANCIAL AND INTEREST INCOME / EXPENSES

Interest income for the six months ended 31st May, 2002 decreased to HK\$1.5 million as compared to HK\$7.6 million for the same period last year. It was mainly attributable to the repayment of mortgage loan during the period under review. Last year, it included HK\$3.7 million interest income derived from the purchase of Tax Reserve Certificate. Interest capitalised for the six months ended 31st May, 2002 was HK\$0.4 million as compared to HK\$13.5 million for the same period last year. Interest expenses charged to the income statement increased by 14.3% to HK\$0.8 million over the same period last year. The Group accordingly recorded a net interest income in the amount of HK\$0.7 million for the six months ended 31st May, 2002.

REMUNERATION POLICIES AND SHARE OPTION SCHEME

During the period under review, the Group employed a total of 22 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, 2002.

PROPERTY

Hong Kong

Hong Kong is still experiencing economic downturn and the property market remained subdued during the period under review. However, the Group managed to maintain a steady rental income. A moderate increase in rental income was recorded from Hing Wai Centre. This was mainly attributable to the successful implementation of more proactive and flexible marketing strategies for absorbing new tenants and securing existing tenants for renewal. The sale of the remaining units of Tin Wan Court was satisfactory, recording a disposal of 7 out of 22 remaining units.

The superstructure works for the wholly owned development project at **Tong Yan San Tsuen** in Yuen Long commenced in December 2001. In general, the site progress was satisfactory and the occupation permit is targeted to be obtained by the end of 2002, upon which marketing will be launched.

The premium for the land exchange of the Group's wholly owned redevelopment project at **One Exchange Plaza** in Tsuen Wan has been agreed with the Lands Department in June 2002. Foundation works is targeted to commence in the third quarter of 2002.

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 in the joint venture, foundation works for phase 1 commenced in May 2002 and is targeted to complete in the second quarter of 2003. An appeal on the first premium offer has been lodged and negotiation with the Lands Department is actively on-going.

Mainland China

Peregrine Plaza (90.3% interest) in Shanghai continued to generate stable and recurrent income to the Group. This 23-storey office/shopping complex comprises 15,330 square metres of gross floor area for office space, 6,815 square metres of gross floor area for retail space and 72 car parking spaces. Of the total gross floor area, 313 square metres of office space have been disposed. As of July 2002, the occupancy rate of both the offices and retail space was about 90%.

For the legal dispute arising from the investment in **Shuohu Court** (75% interest) in Wuhan, the Company rejected the judgement made on 28th May, 1998 by the Supreme People's Court of the People's Republic of China and lodged an appeal for retrial. The Company's appeal was approved and accepted in March 2002 and the retrial took place in May 2002. At present, the Company is awaiting for the Court's judgement on the retrial.

The unsold properties of **Palace Apartment** (17.63% interest) in Beijing had been allocated to the shareholders in proportion to their shareholdings. The Group was allocated with 7 residential units with a gross floor area of approximately 1,676 square metres and 7 car parking spaces. During the period under review, all these residential units were sold and most of the car parking spaces were let out.

Asian Region

Somerset Chancellor Court (13.4% interest) in Ho Chi Minh City, being offices and serviced apartments, was satisfactory let out.

COSMETICS

In spite of an overall decline in consumer demand in the six months under review, a healthy growth was recorded with the total sales turnover increased by 55.0% over that of 2001. Favorable sales figures were mainly contributed by the export sales, particularly from established market distribution in Singapore and Malaysia with direct selling sector instead of via export agent in Hong Kong.

The retail shop continued to perform satisfactory. Two traditional lines' introductions together with the repackaging of the Company's famous products like Florida Water and Living Rose Face Cream will be launched in the third quarter of 2002 with media advertising and print campaign. The Group will continue to explore opportunities to broaden its distribution in U.S.A., Europe and Australia by participating trade fairs and appropriate event overseas.

PROSPECTS

Given the recent unfavorable economic climate both in Hong Kong and in overseas, the weak local economy, the high unemployment rate and the decline in personal wealth and property value are unlikely to turn round in the next few months. The current worry for another dip in US economy has casted further uncertainty for a local recovery in the foreseeable future; and has suppressed overall sentiments in investment and consumption. In our view, the outlook for Hong Kong property sector will continue to experience a difficult operating environment for the rest of 2002 and the next year; unless the local economy can be re-shaped, somehow with tough government effort and policy action. Whereas, the Group will continue to devote its attention to optimize and utilize its existing resources and projects on hand so as to preserve its value.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period under review, 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, my fellow directors and our staff members for their dedication and support.

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

Hong Kong, 12th August, 2002

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

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

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