

# KSH

## KEE SHING (HOLDINGS) LIMITED

(incorporated in Hong Kong with limited liability)

### ANNOUNCEMENT OF 2003 INTERIM RESULTS

On behalf of the Board of Directors, I am pleased to announce the unaudited interim results of the Group for the first six months ended 30th June, 2003. The interim financial report has been reviewed by the Company's audit committee and the Company's auditor, Deloitte Touche Tohmatsu.

Profit attributable to shareholders for the six months ended 30th June, 2003 declined 29.8% to HK\$8.9 million (30th June, 2002: HK\$12.8 million) mainly due to sharing loss from one of the Group's associate. The Directors of the Board has resolved to declare an interim dividend of HK1.5 cents per share (2002: HK1.0 cent per share) to shareholders who registered at the close of business on 26th September, 2003.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2003

	Notes	Six months ended 30.6.2003 <u>HK\$'000</u> (unaudited)	Six months ended 30.6.2002 <u>HK\$'000</u> (unaudited)
Turnover	3	538,647	469,150
Other operating income		1,232	1,267
Changes in inventories of finished goods		4,564	776
Purchase of goods held for resale		(497,547)	(430,552)
Raw materials and consumables used		(3,989)	(427)
Staff costs		(9,904)	(10,038)
Depreciation and amortisation		(1,002)	(1,268)
Other operating expenses		(14,097)	(13,703)
Net realised and unrealised gain on other investments		964	4,799
Impairment loss recognised in respect of investment securities		—	(1,300)
Profit from operations	3	18,868	18,704
Finance costs		(789)	(2,007)
Share of loss of associates		(4,343)	(290)
Amortisation of premium arising on acquisition of an associate		(1,709)	(1,709)
Profit before taxation		12,027	14,698
Taxation	4	(2,418)	(1,668)
Profit before minority interests		9,609	13,030
Minority interests		(649)	(264)
Net profit for the period		8,960	12,766
Dividend	5	6,683	6,683
Earnings per share	6	2.0 cents	2.9 cents

Notes:

## 1. Basis of Preparation

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

## 2. Principal Accounting Policies

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2002 except as described below.

In the current period, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) 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.

## 3. Segment information

The turnover and contributions to profit from operations of the Group for the six months ended 30th June, 2003, analysed by business segments are as follows:

	For the six months ended 30th June, 2003				For the six months ended 30 June, 2002			
	Turnover			Segment Result	Turnover			Segment Result
External Sales	Inter-segment sales	Total	External Sales		Inter-segment sales	Total		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Sales of chemicals and metals	528,153	9,301	537,454	16,861	459,154	7,900	467,054	12,173
Property investment	6,775	756	7,531	3,868	8,700	775	9,475	5,343
Security investment	1,944	—	1,944	1,490	1,143	—	1,143	4,699
Other activities	1,775	3,917	5,692	61	153	3,917	4,070	(22)
Eliminations	—	(13,974)	(13,974)	—	—	(12,592)	(12,592)	—
Consolidated	<u>538,647</u>	<u>—</u>	<u>538,647</u>	<u>22,280</u>	<u>469,150</u>	<u>—</u>	<u>469,150</u>	<u>22,193</u>
Interest income from bank deposits				1,064				1,052
Unallocated other operating income				168				215
Unallocated corporate expenses				(4,644)				(4,756)
Profit from operations				<u>18,868</u>				<u>18,704</u>

#### 4. Taxation

	<b>Six months ended 30.6.2003 HK\$'000</b>	Six months ended 30.6.2002 HK\$'000
The tax charge comprises:		
Current taxation		
Hong Kong Profits Tax	1,965	1,173
Profits tax outside Hong Kong	<u>306</u>	<u>477</u>
	2,271	1,650
Deferred taxation		
Hong Kong Profits Tax		
— attributable to increase in tax rate	113	—
Share of taxation attributable to associates	<u>34</u>	<u>18</u>
	<u><u>2,418</u></u>	<u><u>1,668</u></u>

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2002: 16%) of the estimated assessable profit for the period.

Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

#### 5. Dividend

	<b>Six months ended 30.6.2003 HK\$'000</b>	Six months ended 30.6.2002 HK\$'000
Final dividend paid in respect of the year ended 31st December, 2002 of 1.5 cents (year ended 31st December, 2001: 1.5 cents) per ordinary share	<u><u>6,683</u></u>	<u><u>6,683</u></u>

Interim dividend of 1.5 cent per share, amounting to HK\$6,683,000, was approved by the board of directors on 29th August, 2003.

#### 6. Earnings per Share

The calculation of the earnings per share is based on the net profit for the period of HK\$8,960,000 (six months ended 30.6.2002: HK\$12,766,000 ) and on 445,500,000 ordinary shares (six months ended 30.6.2002: 445,500,000 ordinary shares) in issue during the period.

#### INTERIM DIVIDEND

Interim dividend of 1.5 cent per share (2002: 1.0 cent per share) has been declared payable on or before 30th September, 2003 to shareholders whose names appear on the register of members of the Company on 26th September, 2003. The register of members of the Company will be closed from 23rd September, 2003 to 26th September, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company's share register, Standard Registers Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 22nd September, 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATION REVIEW

#### Trading Division

The principal trading activities of the Group and the contribution of each activity to the Group are summarized as below:

	Turnover		Segment Result	
	Six months ended		Six months ended	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Electroplating Materials and Chemicals	466,153	390,910	13,579	9,453
Paint and Coating Chemicals	44,897	54,665	1,613	2,332
Stainless Steel	17,103	13,579	1,669	388
Total	<u>528,153</u>	<u>459,154</u>	<u>16,861</u>	<u>12,173</u>

#### *Electroplating Materials and Chemicals*

In the first six months of 2003, the market suffered from the events of U.S.-led war against Iraq, global slow economies and spread of "SARS" virus epidemic. With shrinking global demand, increasing materials and chemicals stockpiles were disposed in Asian region and almost all suppliers aggressively slashed prices to reduce their inventory level. The effect of diminishing profit was fortunately offset by the general rise in metal prices, mainly due to weak US dollars, and Group's competent purchase scheme.

Following the trend of global money markets, precious metals experienced severe volatility during the first half year. Improving demand in imitation jewelry industry also benefited our overall turnover during the first half year.

In spite of upward trend of metals prices, market demand of base metal fell due to poor global economic conditions and outbreak of "SARS" epidemic in Asian region. Excessive stockpiles also worsened the situation during the review period. At the end of second quarter, demand slowly picked up but intense competition continued.

#### *Paint and Coating Chemicals*

Sharp appreciation of Euro currency adversely affected the cost competitiveness of our products which are mainly manufactured in Europe and seriously eroded sales turnover during the first half year. High oil price added additional pressure on production costs of most chemical products. Amid lower costs of other rivals, sales turnover fell from HK\$54.7 million in the first six months of 2002 to only HK\$44.9 million in the first six months of 2003, representing a decrease of 17.8%. Market situation still appears tough in the second half year. To improve overall earnings, other than selling to traditional coating factories, we have explored other application fields for our existing products and new products during the period under review. Also, we have obtained an exclusive sales right of one coating chemical in China and that will help expand sales volume in this market.

## *Stainless Steel*

Market demand remained robust in the first half year of 2003. Delayed shipment from suppliers and the “SARS” virus outbreak slightly slowed down the sales performance in the second quarter. Sales turnover advanced 26.1% to HK\$17.1 million for the same period in 2003 if compared to that in the same period of 2002. Continuation of tightness in supply pushed up the global prices in general. It is expected that the weakness in U.S. dollars and volatile prices movement in most raw materials of stainless steel will pressurize gross profit in the second half.

## **Property Investment Division**

Total rental income generated from investment properties amounted to HK\$6.8 million in the first six months of 2003, representing a decline of 22.1% compared with HK\$8.7 million in the same period of 2002. Slow lease demand in residential properties and reduction of office rent in renewal tenancies in the second quarter last year are responsible for the decline.

The lack of new demand for offices pushed down office rents in the first half year of 2003 as business confidence remained low, in particular during the period of “SARS” virus outbreak in the second quarter. It is expected that office rents in Hong Kong will continue to be vulnerable in the second half year.

Demand for Grade A offices in Shanghai, in contrary, grew robustly due to its prospective economic growth and ample flow of funds from foreign and local investors into Shanghai. As reduction of renewal office rent since April of last year, gross rental for the first six months of 2003 dropped by 24.2% compared to that of same period a year earlier. As at 30th June 2003, occupancy rate was 94.4%. During the second quarter, the market was hit by the threat of “SARS” virus epidemic that slowed down the overall market demand. Average market rents also dropped. As at 30th June 2003, occupancy rate reported at 82.0%.

## **Securities Investment Division**

Extended to the 1st quarter of 2003, growing anxiety, insecurity and indecision prevented people to invest, expand and hire. With hope that economic recovery stemmed from U.S. could generate adequate consumer spending and capital investment from business sector, U.S. Federal Reserves cut its benchmark interest rate for the 13th consecutive times since January 2001 to a 45-year record low in the second quarter. Together with the bill of tax-cut program passed by the U.S. Congress, such considerable doses of stimulus supported rallies in equity and bond markets at the period ended.

During the first six months of 2003, we recorded an unrealized gain of HK\$1.2 million and a realized loss of HK\$260,000 in other investment sector. Dividend and interest income generated from securities portfolio accounted for HK\$1.4 million and HK\$574,000 respectively during the six months ended 30th June 2003.

In the second half year, we will closely monitor the global economic outlook and manage to review Group’s portfolio in line with changes of market conditions.

## **FINANCIAL REVIEW**

The Group’s total shareholders’ fund slightly rose 0.4% from HK\$581.1 million as at 31st December, 2002 to HK\$583.3 million as at 30th June, 2003, after adopted the effect of implementation of new accounting policy in relation to deferred tax.

Total cash and cash deposit totalled HK\$134.0 million as at 30th June, 2003 whereas HK\$163.7 million was recorded as at 30th June 2002. For the six months ended 30th June 2003, the main cash outflow related to investment in securities amounting HK\$49.3 million, increase in inventory amounting HK\$4.6 million and decrease in payment due to suppliers amounting HK\$6.5 million.

Total bank borrowing declined from HK\$179.0 million as at 31st December 2002 to HK\$171.2 million as at 30th June, 2003. Net borrowings of HK\$37.2 million were posted as at 30th June, 2003. All bank borrowing were in forms of overdrafts, trust receipt and money market loans at the period ended.

## **PROSPECTS**

After the containment of the SARS outbreak, trading and rental demand improved at the start of the third quarter but price premium remained under pressure. Global economic environment is showing signs of improvement in the second half year of 2003, although probable terrorist attack and growing unemployment remains threats to world economy. With concerns of slow demand and large volatilities in commodities markets, we will continue to be attentive in controlling Group's inventory level and purchasing strategies.

## **PURCHASE, SALE AND REDEMPTION OF SHARES**

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months to 30th June, 2003.

## **CORPORATE GOVERNANCE**

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not for any part of the six months ended 30th June, 2003, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the listing of Securities issued by the Stock Exchange of Hong Kong Limited.

## **PUBLICATION OF OTHER FINANCIAL INFORMATION**

Other financial information containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on The Stock Exchange of Hong Kong Limited website in due course.

By order of the Board  
**Leung Shu Wing**  
*Chairman*

Hong Kong, 29th August, 2003

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