

Management Discussion and Analysis

KEE SHING (HOLDINGS) LIMITED

OPERATING ACTIVITIES

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Electroplating Materials and Chemicals	1,074,180	933,008	28,818	24,743
Paint & Coating Chemicals	90,012	91,580	3,120	3,762
Stainless Steel	39,046	30,096	3,951	2,194
Total	1,203,238	1,054,684	35,889	30,699

Electroplating Materials and Chemicals

Overall, 2003 was a good year for metal industries. Although we were suffered from decreased demand and aggressive price-cutting during the first half year, our performance was greatly improved in the second half due to continuous rises of metal prices and reduced stockpiles in Asian region. Aided by weakening US dollars and double-digit demand growth in China, prices of almost all metal that we traded advanced, ranging from 30% to more than 130%, throughout the year. The effect of diminishing gross profit margin was also narrowed down.

Business of precious metal-plating products performed worse-than-expected because of increasing competition arising from China-made products. After deregulation of Chinese government toward trading gold and silver, market shares of related imported goods were eroded by local competitors. Electroplating chemicals business, however, grew satisfactory as the Group focused on expanding imitation jewelry industry. Demand of plating nickel experienced volatile market conditions during 2003. Having huge stockpiles in Asian region in the first half year that mainly initiated by speculators, the market suffered from fierce price-cutting and dumping action. Overall selling premium was largely dragged down. With gradual reducing stockpiles and benefited from unprecedented high metal prices since the second half year, the market shifted from over-supply situation to normal situation and profitability also improved at the end of the year. Slow demand of printed circuit board factories during the first half year turned around and improved their orders in the last quarter of 2003. However, selling price remained poor due to intense competition among suppliers.

Foreseeing possible tight supply of products in the coming year, the Group kept extra stocks to ensure stable supply to customers. High metal price and the purchase measure used extra financials, either through bank loans or internal funds, to cover additional inventory cost. Inventory level, therefore, increased from HK\$49.4 million as at 31st December, 2002 to HK\$80.8 million as at 31st December, 2003.

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Paint and Coating Chemicals

In 2003, appreciation of Euro against US dollar, high raw materials price and occasional production problems seriously affected our biggest supplier in Europe to fulfill their supply volume to us. With the help of increase in new products introduced into the market over the past years, consequently, total sales turnover slightly fell by 1.7% over that in 2002.

Local China market continued to grow prosperously throughout 2003, even the period of SARS in April. It is expected that demand growth in 2004 will sustain due to China's relatively stable political environment and huge local consumption condition. In spite of full support granted by our suppliers, high raw material prices and continuous slump of European currencies against US dollar will no doubt exert pressure on competitive edges of European import products against Japanese, US or locally-made products. Anticipated that more and more multinational companies will set up new factories in Mainland China, we will increasingly explore different application fields for our existing and new products so as to offset the impact of fierce competition in traditional coating industries.

Stainless Steel

Overall business performance was encouraging during the year. Due to sharp surge of raw materials prices and excessive demand situation, most stainless steel mills raised prices continuously since the second half year of 2003. Sales turnover climbed by 30% in 2003 compared to that in 2002. In early 2004, limited supply of stainless steel's component materials and over-demand situation endures. Having experiences of delay shipment from suppliers during 2003, we stocked up extra tonnages of stainless steel at the end of year to ensure stable supply to customers. As at 31st December, 2003, inventory level was recorded at HK\$8.86 million, slightly lower than HK\$9.1 million at the year-end of 2002.

Property Investment Division

Total rental income fell slightly from HK\$14.9 million in 2002 to HK\$14.7 million in 2003.

Average occupancy rate for the office properties in Hong Kong was 87%. Office demand was severely hit during the SARS period in Hong Kong and barely recovered by the end of the year. Rental price also declined so badly that at least 15% of rental drop was noted within a year. It is expected that the rental market will start to improve following the recovery in Hong Kong's economy in early 2004.

In 2003, huge demand from local and foreign companies reduced total office space availability in Shanghai area. Average occupancy rate of Grade A Office in Puxi area was about 90% during the year. Average occupancy rate of the Group's Shanghai offices was 96.6%.

Supported by improved affordability of local buyers and insatiable appetite from foreign and non-Shanghaiese investors, Shanghai residential property market grew robust in 2003. After suffering from sudden fall in demand during the SARS period, overall property market immediately recovered in the second half year. Average occupancy rate in 2003 was 85.7%, rising from 83.8% for the year 2002. Yet, average monthly rent in 2003 reduced by 5% compared to that in 2002. As at 31st December, 2003, occupancy rate was 96%.

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For the year ended 31st December, 2003, a surplus arising on revaluation of investment properties amounting HK\$5.3 million was recorded, of which a gain of HK\$6.3 million was attributable to Shanghai properties and a loss of HK\$1 million was attributable to Hong Kong properties. Carrying value of total investment properties as at 31st December, 2003 was HK\$242.4 million, compared with HK\$237.1 million as at 31st December, 2002. For the year 2003, gross yield of Hong Kong investment properties at carrying cost as at 31st December, 2003 was 6.5% whilst that of Shanghai properties was 6.0%.

Securities Investment Division

An analysis of the portfolio, current and non-current, by type of securities as at 31st December 2003 is as below:

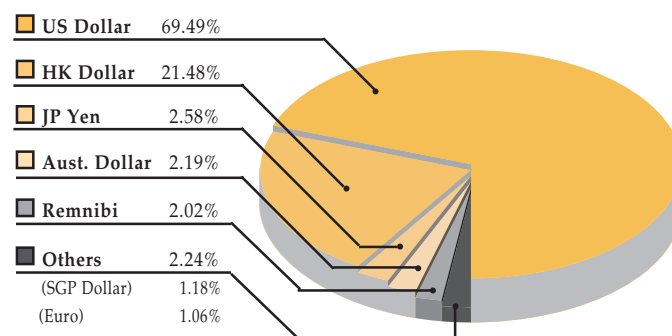
	Market Value of Investments	Percentage of Total
Equities	HK\$59.5 Million	32.5%
Debt Securities	HK\$52.3 Million	28.6%
Mutual Funds	HK\$31.4 Million	17.1%
Long Term Bank Deposits	HK\$38.8 Million	21.2%
Equity-Linked Deposits	HK\$1.1 Million	0.6%
For the Year ended:	31st December, 2003	31st December, 2002
Purchase: (at cost)	HK\$93.7 Million	HK\$27.5 Million
Disposal: (at Market Value)	HK\$74.0 Million	HK\$34.4 Million

As at 31st December, 2003, the Group used its own fund to finance 94.1% of total securities holdings and the remaining 5.9% was financed by bank borrowings.

Accompanied by rising commodity price and benign inflation, GDP growth accelerated all over the world in 2003. Nevertheless, job creation worldwide is the key factor for ongoing global growth. In the face of weakening U.S. currencies and volatile markets, the Group's quest is to moderate risk and increase the portfolio's return. For the year 2003, the Group recorded a realized gain of HK\$16.5 million and an unrealized

gain of HK\$8.0 million in our securities investment division. At the end of the year, the Group's securities portfolio included equities, corporate bonds, alternative investments and capital preservation products. Dividend and interest income generated from securities portfolio accounted HK\$1.9 million and HK\$2.2 million respectively during 2003.

An analysis of the portfolio by currency denomination as at 31st December 2003 is listed below:



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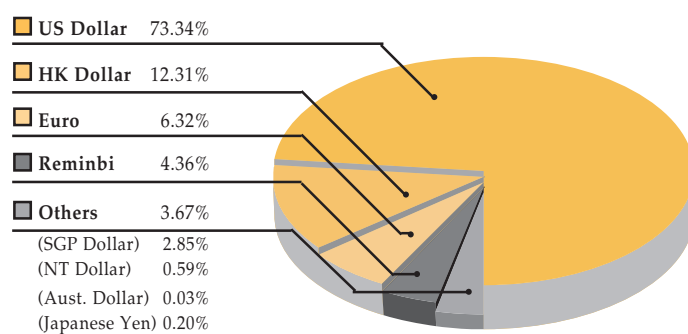
With the experience of the Iraq war, SARS and the current avian flu outbreak in Asian region, as well as unstable geo-political environment, we are aware of the possible abrupt changes to the global economy. Although optimistic about the future outlook on economic condition in the coming year, we remain cautious in positioning our portfolio to cope with possible changes ahead.

EMPLOYEES

The Group employed a staff of 87 at the end of 2003 of whom 62 worked in Hong Kong, 15 worked in Mainland China and 10 worked in overseas offices. Due to performance-related bonus contribution, total remuneration slightly increased by 5.4% in 2003 to HK\$22.0 million over a year earlier (2002: HK\$20.9 million).

The Group values our employees as great assets of the Group. In order to remain competitive within industries, the Group encouraged employees to enrich their professional knowledge through external educational institutions and arranged internal language training courses so as to facilitate staff communication skill.

An analysis of cash and short term bank deposits by currencies as at 31st December 2003 is set out below:



FINANCIAL RESOURCES AND LIQUIDITY

After adopted the effect of implementation of new accounting policy in relation to deferred tax and recognised an impairment loss of HK\$20.5 million on the goodwill arising on acquisition of Asia Commercial Holdings Limited, the Group's shareholders' fund increased from HK\$581.1 million at year-end of 2002 to HK\$606.8 million as at 31st December, 2003.

The Group held total cash and short-term bank deposits of HK\$207.1 million as at 31st December, 2003, an increase of HK\$20.8 million compared with HK\$186.3 million as at 31st December, 2002. Also, the Group placed HK\$38.8 million cash into long term bank deposits at of 31st December, 2003. Including the long term bank deposits, net cash position as at 31st December, 2003 was HK\$6.0 million compared with net cash of HK\$7.3 million as at 31st December, 2002. The main net cash outflow related to the increase in inventories amounting HK\$31.2 million, the increase of HK\$16.4 million in debtors, deposits and prepayments and the increase of bill receivable of HK\$17.6 million. For the year 2003, the Group raised additional HK\$60.8 million bank borrowings to finance additional inventories and trade receivable.

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DEBT STRUCTURE

Total bank borrowings rose from HK\$179.0 million as at 31st December, 2002 to HK\$240.0 million as at 31st December, 2003. Gearing ratio, representing total bank borrowing divided by shareholders' fund, was 0.40 as of 31st December, 2003. All bank borrowings were in forms of trust receipts, bank overdrafts and money market loans as at 31st December, 2003.

All borrowings bear interests on floating rates and matured within one year. Average interest rate charged on borrowings during the year 2003 was 2.0% per annum. Interest expenses in 2003 were HK\$3.8 million, representing a decrease of 12.8% compared to HK\$4.4 million in 2002.

FOREIGN CURRENCY RISK

During the year, the Group's transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, British Sterling, Reminbi, Singapore Dollars and New Taiwanese Dollars. The Group used forward exchange contracts to hedge its foreign currency exposure in trading activities when considered appropriate. There were no outstanding forward exchange contracts as at 31st December, 2003. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.

An analysis on bank borrowings by currencies as at 31st December 2003 is set out below:

