

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 32.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted for the first time the following Hong Kong Financial Reporting Standards ("HKFRS"s) issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
SSAP 35	Accounting for government grants and disclosure of government assistance

Income taxes

In the current year, 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 amount of assets and liabilities in the 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. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in accounting policy, the balance of retained profit as at 1st January, 2002, have been increased by HK\$235,000 and the balances of the Group's capital reserve and property revaluation reserve at 1st January, 2002 have been reduced by HK\$3,139,000 and HK\$2,218,000 respectively, representing the respective cumulative effects of the changes in accounting policy on the reserves prior to 1st January, 2002. The changes has resulted in decrease in profit and decrease in property revaluation reserve in the current year of HK\$772,000 (2002: Nil) and HK\$208,000 (2002: Nil) respectively.

Accounting for government grants and disclosure of government assistance

In the current year, the Group has adopted SSAP 35 Accounting for government grants and disclosure of government assistance. In previous years, government grants were credited to current liabilities. In accordance with SSAP 35, government grants are now recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other operating income. The Group has elected to apply the requirements of SSAP 35 retrospectively, but the adoption of SSAP 35 has not had any material effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries prior to 1st January, 2001 continues to be held in reserves, and will be charged to income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Goodwill arising on the acquisition of an associate prior to 1st January, 2001 continued to be amortised over its useful economic life of ten years.

Goodwill arising on acquisitions of subsidiaries or associates after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisitions of subsidiaries is presented separately in the balance sheet date.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions of subsidiaries prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions of subsidiaries after 1st January, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Commission income is recognised when services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

Dividend income from investments is recognised when the Group's right to receive payment is established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the profit or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less depreciation, amortisation and any identified impairment loss.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Certain of the Group's leasehold land and buildings were revalued at 31st December, 1991. The surplus arising on revaluation of land and buildings was credited to the property revaluation reserve. The Group has adopted the transitional relief provided by paragraph 80 of the SSAP 17 (Revised) "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluations on a regular basis of the Group's leasehold land and buildings and, accordingly, no further revaluation of leasehold land and buildings will be carried out. On the subsequent disposal of such properties, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining term of the lease
Buildings	2% to 2.5% or over the remaining term of the lease, whichever is the shorter
Furniture, fixtures and equipment	16% to 20%
Motor vehicles	16% to 25%
Plant and machinery	20%
Computer equipment	20% to 33 ¹ / ₃ %

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill on acquisition in so far as it has not already been written off or amortised, less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Notes to the Financial Statements

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For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Taxation (*continued*)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

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For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business Segments

For management purposes, the Group is currently organised into three operating divisions – sales of chemicals and metals, property investment and security investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31st December, 2003

	Sales of chemicals and metals HK\$'000	Property investment HK\$'000	Security investment HK\$'000	Other activities HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue						
External Sales	1,203,238	14,688	4,093	2,211	-	1,224,230
Inter-segment sales	27,422	1,486	-	47,176	(76,084)	-
Total revenue	1,230,660	16,174	4,093	49,387	(76,084)	1,224,230
Inter-segment sales are charged at prevailing market rates.						
Results						
Segment result	35,889	14,636	28,599	82	-	79,206
Interest income from bank deposits						1,742
Unallocated other operating income						865
Unallocated corporate expenses						(10,766)
Profit from operations						71,047
Finance costs						(3,805)
Share of profit of associates						2,979
Amortisation of goodwill arising on acquisition of an associate						(3,417)
Impairment loss recognised in respect of goodwill arising on acquisition of an associate						(20,504)
Profit before taxation						46,300
Income tax expense						(6,029)
Profit before minority interests						40,271
Minority interests						(1,564)
Net profit for the year						38,707

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For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business Segments *(continued)*

At 31st December, 2003

Balance sheet

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	246,180	244,513	182,236	254	673,183
Interests in associates	453	–	–	28,754	29,207
Unallocated corporate assets					232,196
Consolidated total assets					934,586
Liabilities					
Segment liabilities	35,304	22,533	304	56	58,197
Unallocated corporate liabilities					252,022
Consolidated total liabilities					310,219

Other information

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	967	329	–	836	2,132
Depreciation	694	979	–	297	1,970

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For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

For the year ended 31st December, 2002

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue						
External Sales	1,054,684	14,940	2,619	578	-	1,072,821
Inter-segment sales	22,526	1,531	-	37,179	(61,236)	-
Total revenue	1,077,210	16,471	2,619	37,757	(61,236)	1,072,821

Inter-segment sales are charged at prevailing market rates.

Results						
Segment result	30,699	8,724	(14,614)	30	-	24,839
Interest income from bank deposits						2,322
Unallocated other operating income						916
Unallocated corporate expenses						(10,535)
Profit from operations						17,542
Finance costs						(4,363)
Share of loss of associates						(1,235)
Amortisation of goodwill arising on acquisition of an associate						(3,417)
Profit before taxation						8,527
Income tax expense						(3,884)
Profit before minority interests						4,643
Minority interests						(491)
Net profit for the year						4,152

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For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

At 31st December, 2002

Balance sheet

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i> (restated)	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (restated)
Assets					
Segment assets	180,102	239,372	145,507	98	565,079
Interests in associates	453	–	–	49,333	49,786
Unallocated corporate assets					211,843
Consolidated total assets					826,708
Liabilities					
Segment liabilities	19,902	20,686	219	12	40,819
Unallocated corporate liabilities					188,684
Consolidated total liabilities					229,503

Other information

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	287	637	–	221	1,145
Depreciation	1,305	1,024	–	166	2,495
Other non-cash expenses	–	1,000	19,371	–	20,371
Impairment loss recognised in respect of investment securities	–	–	1,300	–	1,300

Notes to the Financial Statements

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For the year ended 31st December, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in Hong Kong, Taiwan and elsewhere in the People's Republic of China.

The Group's sales of chemicals and metals are carried out in Hong Kong, Taiwan and elsewhere in the People's Republic of China. Property investment is carried out in Hong Kong and elsewhere in the People's Republic of China. Security investment is carried out in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market:

	Revenue by geographical market		Contribution to profit from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	873,892	769,329	48,928	7,955
Taiwan	147,045	123,299	2,880	2,661
Elsewhere in the People's Republic of China	104,035	106,112	18,613	14,018
Others	99,258	74,081	8,785	205
	<u>1,224,230</u>	<u>1,072,821</u>	<u>79,206</u>	<u>24,839</u>
Interest income from bank deposits			1,742	2,322
Unallocated other operating income			865	916
Unallocated corporate expenses			(10,766)	(10,535)
Profit from operations			<u>71,047</u>	<u>17,542</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31.12.2003 HK\$'000	At 31.12.2002 HK\$'000	Year ended 31.12.2003 HK\$'000	Year ended 31.12.2002 HK\$'000
Hong Kong	301,017	395,818	1,403	869
Taiwan	47,645	26,718	12	-
Elsewhere in the People's Republic of China	270,805	263,039	238	276
Others	285,912	91,347	479	-
	<u>905,379</u>	<u>776,922</u>	<u>2,132</u>	<u>1,145</u>

5. OTHER OPERATING INCOME

Other operating income comprises:

	2003 HK\$'000	2002 HK\$'000
Interest income from bank deposits	1,742	2,322
Sundry income	865	916
	<u>2,607</u>	<u>3,238</u>

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

6. IMPAIRMENT LOSS RECOGNISED

The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31st December, 2003 and have determined to recognise the impairment losses in respect of the following assets:

	2003 HK\$'000	2002 HK\$'000
Investment securities (<i>note a</i>)	–	1,300
Goodwill arising on acquisition of an associate (<i>note b</i>)	20,504	–

Notes:

- a. The available market value of such investment securities has been less than its carrying value for a prolonged period.
- b. Based on a review of the interest in an associate at the balance sheet date, the directors consider that the carrying amount of the goodwill arising on acquisition of an associate is not recoverable.

7. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	935	920
– overprovision in prior year	(15)	(118)
	920	802
Rental payments in respect of properties under operating leases	1,661	1,484
Retirement benefits scheme contributions (excluding amounts paid under directors' emoluments)	531	547
and after crediting:		
Dividend income from listed investments	1,852	1,467
Gain on disposal of property, plant and equipment	173	–
Gross rental income from properties under operating leases after outgoings of HK\$71,000 (2002: HK\$71,000)	14,617	14,869
Interest income from investments	2,241	1,152

8. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.

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9. DIRECTORS' EMOLUMENTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Directors' fees	540	490
Other emoluments to directors:		
Salaries and other benefits	2,391	2,335
Performance related incentive payments	297	163
Retirement benefits scheme contributions	43	47
	<u>2,731</u>	<u>2,545</u>
Total directors' emoluments	<u>3,271</u>	<u>3,035</u>

The amounts disclosed above include directors' fees of HK\$280,000 (2002: HK\$230,000) and other emoluments of HK\$170,000 (2002: HK\$170,000) payable to independent non-executive directors.

The emoluments of each of the directors for both years were within the emoluments band ranging from nil to HK\$1,000,000.

There was no compensation for loss of office paid to directors or former directors.

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included two directors (2002: two directors), details of whose emoluments are included in the amounts disclosed in note 9 above. The emoluments of the remaining highest paid employees, other than directors of the Company, are follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries and other benefits	2,835	2,706
Performance related incentive payments	278	223
Retirement benefits scheme contributions	55	31
	<u>3,168</u>	<u>2,960</u>

Their emoluments were within the following bands:

	2003 <i>Number of employees</i>	2002 <i>Number of employees</i>
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

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11. INCOME TAX EXPENSE

	2003 HK\$'000	2002 HK\$'000
The tax charge attributable to the Company and its subsidiaries comprises:		
Current taxation		
Hong Kong Profits Tax	4,511	2,973
Profits tax outside Hong Kong	703	887
	<u>5,214</u>	<u>3,860</u>
Deferred taxation (Note 23)		
– Current year	659	–
– Attributable to change in tax rate	113	–
	<u>5,986</u>	<u>3,860</u>
Share of taxation attributable to associates	43	24
	<u>6,029</u>	<u>3,884</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year.

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

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	Hong Kong		Elsewhere in the PRC		Other countries		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Profit before taxation	29,194	(3,460)	15,697	10,912	1,409	1,075	46,300	8,527
Application tax rate	17.5%	16%	3.3%	3.3%	21.4%	20.8%		
Tax at the domestic income tax rate	5,109	(554)	518	360	301	224	5,928	30
Tax effect of expenses not deductible for tax purpose	4,675	4,753	976	136	23	220	5,674	5,109
Tax effect of income not taxable for tax purpose	(4,714)	(1,378)	(211)	(24)	(87)	(49)	(5,012)	(1,451)
Utilisation of previous tax losses not recognised	(200)	(64)	–	–	–	–	(200)	(64)
Tax effect of share of results of associates	(479)	240	–	–	–	–	(479)	240
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	113	–	–	–	–	–	113	–
Tax effect on different tax rate of operations in other jurisdiction	–	–	–	–	5	20	5	20
Tax effect of the year	<u>4,504</u>	<u>2,997</u>	<u>1,283</u>	<u>472</u>	<u>242</u>	<u>415</u>	<u>6,029</u>	<u>3,884</u>

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12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid in respect of 2003 of 1.5 cents (2002: 1 cent) per ordinary share	6,683	4,455
Final dividend paid in respect of 2002 of 1.5 cents (2001: 1.5 cents) per ordinary share	6,682	6,683
	<u>13,365</u>	<u>11,138</u>

The final dividend of 2.5 cents for the year ended 31st December, 2003 (2002: 1.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$38,707,000 (2002: HK\$4,152,000) and on 445,500,000 ordinary shares (2002: 445,500,000 ordinary shares) in issue during the year.

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in either 2003 or 2002.

14. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2003	237,140
Surplus arising on revaluation	<u>5,290</u>
At 31st December, 2003	<u>242,430</u>

The Group's investment properties comprise:

	2003 HK\$'000	2002 HK\$'000
Properties held under medium-term leases:		
– in Hong Kong	7,650	8,600
– elsewhere in the People's Republic of China	<u>188,760</u>	<u>184,080</u>
	196,410	192,680
Properties held under long leases:		
– elsewhere in the People's Republic of China	<u>46,020</u>	<u>44,460</u>
	<u>242,430</u>	<u>237,140</u>

All of the investment properties of the Group were revalued at 31st December, 2003 by Knight Frank, an independent firm of professional valuers, on an open market value existing use basis. The resulting surplus arising on revaluation, which amounted to HK\$5,290,000, has been credited to the consolidated income statement.

All the investment properties of the Group are rented out under operating leases.

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KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Computer equipment HK\$'000	Total HK\$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 2003	36,911	14,037	4,085	1,520	2,312	58,865
Currency realignment	127	2	21	–	(3)	147
Additions	–	1,344	455	317	16	2,132
Disposals	–	(833)	(446)	–	(23)	(1,302)
At 31st December, 2003	<u>37,038</u>	<u>14,550</u>	<u>4,115</u>	<u>1,837</u>	<u>2,302</u>	<u>59,842</u>
Comprising:						
At cost	9,238	14,550	4,115	1,837	2,302	32,042
At valuation – 1991	<u>27,800</u>	–	–	–	–	<u>27,800</u>
	<u>37,038</u>	<u>14,550</u>	<u>4,115</u>	<u>1,837</u>	<u>2,302</u>	<u>59,842</u>
DEPRECIATION AND AMORTISATION						
At 1st January, 2003	6,411	12,542	3,760	1,400	2,107	26,220
Currency realignment	23	(9)	22	–	(4)	32
Provided for the year	745	758	295	65	107	1,970
Eliminated on disposals	–	(791)	(446)	–	(22)	(1,259)
At 31st December, 2003	<u>7,179</u>	<u>12,500</u>	<u>3,631</u>	<u>1,465</u>	<u>2,188</u>	<u>26,963</u>
NET BOOK VALUES						
At 31st December, 2003	<u>29,859</u>	<u>2,050</u>	<u>484</u>	<u>372</u>	<u>114</u>	<u>32,879</u>
At 31st December, 2002	<u>30,500</u>	<u>1,495</u>	<u>325</u>	<u>120</u>	<u>205</u>	<u>32,645</u>

Certain of the leasehold land and buildings of the Group were revalued at 31st December, 1991. Had all the leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of these properties would have been stated at HK\$19,655,000 (2002: HK\$19,939,000).

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
COST			
At 1st January, 2003	2,667	1,712	4,379
Additions	836	–	836
Disposals	(812)	(22)	(834)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	2,691	1,690	4,381
DEPRECIATION			
At 1st January, 2003	2,375	1,599	3,974
Provided for the year	237	60	297
Eliminated on disposals	(785)	(22)	(807)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	1,827	1,637	3,464
NET BOOK VALUES			
At 31st December, 2003	<hr/>	<hr/>	<hr/>
	864	53	917
At 31st December, 2002	<hr/>	<hr/>	<hr/>
	292	113	405

The Group's leasehold land and buildings comprise:

	Leasehold land and buildings	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held under medium-term leases:		
– in Hong Kong	22,361	22,924
Properties held under long leases:		
– overseas	7,498	7,576
	<hr/>	<hr/>
	29,859	30,500
	<hr/>	<hr/>

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	38,587	38,587
	<hr/>	<hr/>

Particulars of the subsidiaries at 31st December, 2003 are set out in note 32.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	29,207	25,865
Goodwill arising on acquisition, net	20,504	23,921
Impairment loss recognised in respect of goodwill arising on acquisition	(20,504)	–
	<u>29,207</u>	<u>49,786</u>

Particulars of the associates at 31st December, 2003 are as follows:

Name of associate	Form of business structure	Country of incorporation	Principal place of operation	Class of shares held	Percentage of issued share capital held by the Group %	Principal activities
Asia Commercial Holdings Limited (note)	Incorporated	Bermuda	Hong Kong	Ordinary	16.5	Watch trading and retailing activities
KSIP (Thailand 1989) Co., Ltd.	Incorporated	Thailand	Thailand	Ordinary	49	Inactive

Note: This company has been accounted for as an associate as, in the opinion of the directors, the Group is in a position to exercise significant influence over the management of this company.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

18. INVESTMENTS IN SECURITIES

THE GROUP

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities:						
Listed – Hong Kong	–	–	39,330	74,917	39,330	74,917
Listed – overseas	3,132	3,132	12,410	8,136	15,542	11,268
Unlisted	–	–	3,701	3,701	3,701	3,701
	<u>3,132</u>	<u>3,132</u>	<u>55,441</u>	<u>86,754</u>	<u>58,573</u>	<u>89,886</u>
Mutual funds:						
Unlisted	10,628	10,628	20,161	16,914	30,789	27,542
Debt securities:						
Listed – overseas	–	–	12,634	8,639	12,634	8,639
Unlisted	8,343	7,800	31,449	11,005	39,792	18,805
	<u>8,343</u>	<u>7,800</u>	<u>44,083</u>	<u>19,644</u>	<u>52,426</u>	<u>27,444</u>
Total securities						
Listed	3,132	3,132	64,374	91,692	67,506	94,824
Unlisted	18,971	18,428	55,311	31,620	74,282	50,048
	<u>22,103</u>	<u>21,560</u>	<u>119,685</u>	<u>123,312</u>	<u>141,788</u>	<u>144,872</u>
Market value of listed securities	<u>4,019</u>	<u>4,043</u>	<u>64,374</u>	<u>91,692</u>	<u>68,393</u>	<u>95,735</u>
Carrying amount analysed for reporting purposes as:						
Non-current	22,103	21,560	3,701	3,701	25,804	25,261
Current	–	–	115,984	119,611	115,984	119,611
	<u>22,103</u>	<u>21,560</u>	<u>119,685</u>	<u>123,312</u>	<u>141,788</u>	<u>144,872</u>

Particulars of the Group's investments in equity securities which exceed 20% of the nominal value of the issued shares of that class disclosed pursuant to Section 129 (1) of the Companies Ordinance are as follows:

Name of company	Place of registration	Type of investment held	Percentage of registered capital held by the Group
Hebei Varwin Gas Propellents Co., Ltd. (note)	People's Republic of China	Registered capital	30%
Shenzhen Far East Oil Tools Co., Ltd. (note)	People's Republic of China	Registered capital	25%

Note: These companies have not been accounted for as associates as, in the opinion of the directors, the Group is not in a position to exercise significant influence over the management of these companies.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

19. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	949	790
Finished goods	88,716	57,633
	<u>89,665</u>	<u>58,423</u>

Included in inventories are finished goods of HK\$1,500,000 (2002: HK\$10,255,000) carried at net realisable value.

20. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from cash on delivery to 120 days to its trade debtors. The aged analysis of trade debtors of HK\$112,143,000 (2002: HK\$95,986,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 30 days	73,254	52,977
31 – 60 days	25,325	31,492
61 – 90 days	8,858	7,180
91 – 120 days	2,854	3,063
121 – 365 days	1,852	1,274
	<u>112,143</u>	<u>95,986</u>

The Company did not have any trade debtors at the balance sheet dates.

21. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.05 each		
Authorised:		
At beginning and at end of the years 2002 and 2003	<u>700,000,000</u>	<u>35,000</u>
Issued and fully paid:		
At beginning and at end of the years 2002 and 2003	<u>445,500,000</u>	<u>22,275</u>

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

22. RESERVES

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2002	153,728	185,447	339,175
Net profit for the year	–	32,989	32,989
Dividends paid (note 12)	–	(11,138)	(11,138)
	<hr/>	<hr/>	<hr/>
At 31st December, 2002	153,728	207,298	361,026
Net profit for the year	–	43,284	43,284
Dividends paid (note 12)	–	(13,365)	(13,365)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	<hr/> <u>153,728</u>	<hr/> <u>237,217</u>	<hr/> <u>390,945</u>

The Company's reserves available for distribution to shareholders as at 31st December, 2003 comprised the retained profits of HK\$237,217,000 (2002: HK\$207,298,000).

23. DEFERRED TAXATION

	Revaluation of investment properties HK\$'000	Revaluation leasehold land and building HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1st January, 2002				
– as previously stated	–	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	1,704	2,218	1,200	5,122
	<hr/>	<hr/>	<hr/>	<hr/>
At 1st January, 2002 as restated and at 31st December, 2002	1,704	2,218	1,200	5,122
Charge (credit) to income statement for the year	822	–	(163)	659
Effect of change in tax rate				
– charge to income	–	–	113	113
– charge to property revaluation reserve	–	208	–	208
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	<hr/> <u>2,526</u>	<hr/> <u>2,426</u>	<hr/> <u>1,150</u>	<hr/> <u>6,102</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$109 million (2002: HK\$110 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profit streams. Such tax losses may be carried forward indefinitely.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

24. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors of HK\$25,071,000 (2002: HK\$13,806,000) which are included in the Group's creditors and accrued charges are as follows:

	2003 HK\$'000	2002 HK\$'000
0 – 30 days	23,944	12,144
31 – 60 days	934	1,568
61 – 90 days	131	49
91 – 120 days	62	45
	<u>25,071</u>	<u>13,806</u>

The Company did not have any trade creditors at the balance sheet date.

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The bank borrowings, which are all unsecured and due within one year, comprise:				
Bank overdrafts	113	145	–	–
Bank loans	10,816	27,697	2,500	15,000
Trust receipt	229,043	151,198	–	–
	<u>239,972</u>	<u>179,040</u>	<u>2,500</u>	<u>15,000</u>

26. OPERATING LEASE COMMITMENTS

The Group as lessee:

At the balance sheet date, the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,400	1,501	422	650
In the second to fifth year inclusive	19	1,222	242	60
	<u>1,419</u>	<u>2,723</u>	<u>664</u>	<u>710</u>

Operating lease payments represents rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

26. OPERATING LEASE COMMITMENTS (continued)

The Group as lessor:

Property rental income earned during the year was HK\$14,688,000 (2002: HK\$14,940,000). The properties held have committed tenants in the range from the next half year to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	11,368	13,124
In the second to fifth year inclusive	5,129	16,954
	<u>16,497</u>	<u>30,078</u>

27. CONTINGENT LIABILITIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Extent of banking facilities utilised by subsidiaries in respect of which guarantees were given to banks by the Company	<u>237,472</u>	<u>178,895</u>

During the year, a subsidiary entered into a consignment agreement with a supplier in respect of the consignment inventories under the custody of the subsidiary. The Company gives a guarantee in respect of the payment and performance of the subsidiary pursuant to the consignment agreement. At 31st December, 2003, the consignment inventories amounted to HK\$787,000 (2002: Nil).

28. CAPITAL COMMITMENTS

	THE GROUP AND THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	<u>151</u>	<u>440</u>

29. PLEDGE OF ASSETS

At 31st December, 2003, certain leasehold properties with aggregate carrying value of HK\$7,498,000 (2002: HK\$7,577,000) were pledged to banks to secure banking facilities granted to the Group.

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

30. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

31. RELATED PARTY TRANSACTION

During the year ended 31st December, 2002, the Company entered into an agreement with a subsidiary of an associate of the Group for the software development services to be provided to the Group at the consideration of HK\$755,000. In addition to the amount of HK\$453,000 paid in last year, the Company further paid HK\$151,000 during the year for this service.

32. SUBSIDIARIES

Particulars of the subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/ registered capital held by the Company %	Principal activities
			Ordinary	Non-voting preferred (note)		
Asia Fame International Limited	Hong Kong	Hong Kong	HK\$1,000,000	–	100*	Manufacturing of electroplating chemicals and solutions
Bright Star Limited	Cook Islands	Hong Kong	US\$1,000	–	100	Investment holding
Charterway Developments Limited	Hong Kong	Hong Kong	HK\$1,000,000	–	100	Property investment
E.P. Resources Limited	Hong Kong	Hong Kong	HK\$10,000	–	100*	Securities investment and trading
Electrochemical Technologies Limited	Hong Kong	Hong Kong	HK\$2	–	100*	Securities investment
EngoTech Limited	Hong Kong	Hong Kong	HK\$10,000	–	100*	Manufacturing of and trading in electroplating chemicals and solutions
Ever Channel Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Global Trade Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Gold Asset Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

32. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/ registered capital held by the Company	Principal activities
			Ordinary	Non-voting preferred (note)	%	
Jollifair Investments Limited	Hong Kong	Hong Kong	HK\$10,000	-	100*	Investment holding
Kee Shing (Coins) Limited	Hong Kong	Hong Kong	HK\$1,000,000	-	100*	Securities trading
Kee Shing Hardware Supplies Limited	Hong Kong	Hong Kong	HK\$800,000	HK\$400,000	100	Trading in stainless steel
Kee Shing Industrial Products Limited	Hong Kong	Hong Kong, Taiwan, South Korea and Thailand	HK\$200	HK\$1,000,000	100*	Investment holding and trading in electroplating chemicals and metals
Kee Shing International Limited	Hong Kong	Hong Kong	HK\$2	-	100*	Securities investment
Kee Shing (Investments) Limited	Cook Islands	Cook Islands	US\$1,000	-	100*	Investment holding
Kee Shing Property Consultants (Shanghai) Co., Ltd.#	Shanghai	Elsewhere in the People's Republic of China	RMB2,902,060	-	100*	Property management
King Shen Industrial Products Company Limited	Taiwan	Taiwan	NT\$5,000,000	-	70	Trading in electroplating chemicals and metals
Kingsview Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	-	90	Property investment
Klendo Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	-	90*	Property investment
KSIP (Singapore) Pte. Ltd.	Republic of Singapore	Republic of Singapore	S\$1,000,000	-	51	Trading in electroplating chemicals and metal plating products
Pacific Apex International Limited	Hong Kong	Hong Kong	HK\$10,000	-	100*	Investment holding
Pacific Wide Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	-	90	Property investment
Pakwell Investment Limited	Hong Kong	Hong Kong	HK\$10,000	-	55*	Inactive

Notes to the Financial Statements

KEE SHING (HOLDINGS) LIMITED

For the year ended 31st December, 2003

32. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/ registered capital held by the Company	Principal activities
			Ordinary	Non-voting preferred (note)	%	
Sam Wing International Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$200	HK\$2,160,000	100*	Trading in chemicals and securities investment
Sam Wing Resources Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$3,000,000	–	55*	Trading in machinery and equipment
Sure Glory Ventures, Inc.	British Virgin Islands	Australia	US\$2	–	100*	Investment holding
Topbase Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Top Image Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Trendex Investment Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	100*	Property investment
Union Channel Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Union Crown Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment
Winbase Properties Limited	Hong Kong	Elsewhere in the People's Republic of China	HK\$10,000	–	90	Property investment

* Directly held by the Company

A wholly foreign owned enterprise

None of the subsidiaries had any loan capital subsisting at 31st December, 2003 or at any time during the year.

Note: The non-voting preferred shares, which are not held by the Company, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.