

# KEL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

# (Stock Code: 681)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2004

### ANNUAL RESULTS

The board of directors (the "Directors") of KEL Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group"), for the year ended 31 March 2004, together with the comparative figures for the year ended 31 March 2003, as follows:

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER Cost of sales	3	38,243 (35,246)	31,136 (27,757)
Gross profit Other revenue and gains Administrative expenses Write-back of provision for doubtful debts	3	2,997 1,424 (15,135) 2,233	3,379 161 (15,219) 3,086
LOSS FROM OPERATING ACTIVITIES Finance costs Share of loss of a jointly-controlled entity	4	(8,481) (518) (25)	(8,593) (212)
LOSS BEFORE TAX Tax	5	(9,024) (135)	(8,805)
LOSS BEFORE MINORITY INTERESTS Minority interests		(9,159) 27	(8,805) 45
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		(9,132)	(8,760)
LOSS PER SHARE Basic	6	HK0.63 cents	HK1.02 cents
Diluted		N/A	N/A

### IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("HKSSAP")

HKSSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. HKSSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current taxes) and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred taxes).

The HKSSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now extensive than previously required. These are detailed in note 5 and include a reconciliation between the accounting loss and the tax expense for the year.

### SEGMENTAL INFORMATION

Business Segment The following tables present revenue and profit information for the Group's business segments.

			Discontinuing operations							
	Property 2004 HK\$'000	investment 2003 HK\$'000		ng services (le-trade) 2003 HK\$ '000		d/design and contracts 2003 HK\$'000		nmental ng services 2003 HK\$'000	Con: 2004 HK\$'000	solidated 2003 HK\$'000
Segment revenue: Sales to external customers Other revenue	1,351	_	10,107 2	18,713	26,433 6	9,060	1,703 1	3,363	38,243 1,360	31,136
•	1,351	_	10,109	18,713	26,439	9,060	1,704	3,363	39,603	31,136
Segment results	904		(2,014)	(4,682)	(7,190)	(3,731)	(553)	(1,104)	(8,853)	(9,517)
Interest income and unallocated gain Write-back of provision for doubtful debts	s _		461	3,086	1,772				64 2,233	161 3,086
Unallocated expenses				-,	,				(1,925)	(2,323)
Loss from operating activities Finance costs Share of loss of a									(8,481) (518)	(8,593) (212)
jointly-controlled entity	-	-	-	-	-	-	(25)	-	(25)	
Loss before tax Tax									(9,024) (135)	(8,805)
Loss before minority interests Minority interests									(9,159) 27	(8,805) 45
Net loss attributable to shareholders									(9,132)	(8,760)
Other segment information: Depreciation Unallocated amounts	-	_	66	67	-	_	-	-	66 59	67 96
									125	163
Capital expenditure Unallocated amounts	-	-	11	8	-	-	-	_	11 26	8 134
									37	142
Geographical segments										
The following tables present revenue	The following tables present revenue information for the Group's geographical segments.									
	HK	2004 \$'000	g Kong 20 HK\$'0		2004 HK\$'000	Iainland Chir	2003 (\$'000	200 HK\$'0		2003 HK\$'000

TURNOVER	, OTHER	REVENUE A	ND GAINS

		2004 HK\$'000	2003 HK\$'000
	Turnover		
	Construction contracts	38,243	31,136
	Other revenue and gains		
	Interest income Gain on disposal of fixed asset	62	109
	Rental income from properties held for sale	1,351	_
	Other	9	52
		1,424	161
4	FINANCE COSTS		
		2004 HK\$'000	2003 HK\$'000
	Interest on convertible notes	81	194
	Interest on bank loans and overdrafts:		
	wholly repayable within five years wholly repayable after five years	182 255	18
	who hy repayable after five years	255	
		510	212

on for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the current and prior year profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, by

interpretations and practices in respect thereof.		
	2004 HKS'000	2003 HK\$'000
		11K3 000
Current year provision – elsewhere	135	

iliation of the tax credit applicable to loss before tax using the statutory rate for the countries in which the Company and its subsidiaries and jointly-cont ciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rate) to the effective rates, are as follows:

	2004			2003		
	HK\$'000	%	HK\$'000	%		
Loss before tax	(9,024)		(8,805)			
Tax at the statutory tax rate	(1,481)	16.4	(1.409)	16.0		
Income not subject to tax	(83)	0.9	(209)	2.4		
			(209)	2.4		
Expenses not deductible for tax	122	(1.3)	_	_		
Unrecognised tax losses	1,577	(17.5)	1,618	(18.4)		
Tax charge at the Group's effective rate	135	(1.5)				

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$9,132,000 (2003: HK\$8,760,000) and the weighted average number of 1,440,382,000 (2003: 862,268,000) shares in issue during the year.

Diluted loss per share amount for the year ended 31 March 2003 has not been disclosed as the convertible notes outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

Diluted loss per share amount for the year ended 31 March 2004 has not been disclosed as the convertible notes outstanding and expired during the year had an anti-dilutive effect on the basic loss per share.

### DIVIDEND

The Directors do not recommend the payment of a final dividend in respect of the year.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 August 2004 to 24 August 2004 (both days inclusive) during which period no transfer of shares in the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the Annual General Meeting held on 24 August 2004, transfer of shares in the Company accompanied by the relevant share certificates must be lodged with Tengis Limited, the Company's Hong Kong branch share registrar, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 pm on 18 August 2004.

### POST BALANCE SHEET EVENTS

- On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua Resources Investment Limited ("Xin Hua") and its related shareholders' loans for HK\$29,500,000 (the "Xin Hua Acquisition Agreement"). The consideration was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.
- On 18 February 2004, the Group entered into an agreement with Deson Development International Holdings Limited ("Peson") to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan at a consideration of HK\$7,500,000 (the "Penmark Acquisition Agreement"). The consideration was satisfied by issuing 75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

- On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group Limited and its shareholder's loan for HK\$7,000,000 to Deson (the "Kenworth Disposal Agreement"). The consideration was paid by Deson in cash
- paid by Deson in cash.

  On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each (the "Placing Agreement"). The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the Placing Agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

  On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited ("Super Win"), the immediate holding company of the Company (the "Subscription Agreement"). The Company will issue 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000. Pursuant to the subscription agreement, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

  he above transactions were approved by the independent shareholders and shareholders of the Company at a special general meeting on

All the above transactions were approved by the independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

BUSINESS AND SEGMENT INFORMATION REVIEW

The Group's turnover for the year was HK\$38,243,000. This represented an increase of 22.8% as compared with that of last year. The net loss attributable to shareholders amounted to approximately HK\$9,132,000. Basic loss per share was approximately HK0.63 cents.

### Discontinued operation in Electrical and Mechanical Engineering Services

Market sentiment was, during the year under review, adversely affected by the unfavourable economic conditions in Hong Kong due to SARS, rising unemployment rate and other negative factors. However, based on the relationship and support by Deson, the Group can still achieve a turnover of HKS38 million. Turnover in Building Services (single-trade) and Packaged/Design and Build Contracts projects contributed to 26.43% and 69.12% of the total turnover, respectively. More time and efforts are required to pick up the comparatively lower market share of Environment Engineering Services upon restructuring, as the Group had to rebuild and beef up the confidence of customers in this field.

customers in this field.

The Hong Kong economy is on the gradual pickup and that the confidence is being built up in the Government of the HKSAR in these few months, the Group was awarded several engineering projects during this year including the installation of Trunk Sewers and Effluent Export Pipeline in Ngong Ping Sewage Treatment Plant, Lantau Island, New Territories, Buildings Services Installation for a secondary school at Nam Fung Road, Aberdeen, Hong Kong and several school improvement works. As at the date of this report, the Group has projects on hand with a total contractual sums of over HK\$300 million.

Property investment

To strengthen the financial and asset positions, the Group acquired the 24th, 27th and 28th floors of Zhongda Square, Shanghai, the People's Republic of China ("PRC") together with 19 carparks in May 2003 at a total consideration of HK\$46,000,000. The consideration was satisfied by the issue of 657,142,857 shares of the Company at HK\$0.07 each. During this year, this segment contributed a revenue and profit of HK\$1,351,000 and HK\$904,000, respectively to the results of the Group.

The Directors note that the Group had for a number of years been principally engaged in the provision of electrical and mechanical engineering services ("E&M Services"). During the past few years, the Group has experienced difficult market conditions owing to the weak local economy and the keen competition in the construction industry. In order to the difficulties faced by the Group and to strengthen its financial condition, the Directors have been exploring new business opportunity which will generate revenue and cash flow and provide a reliable source of income to the Group. and provide a reliable source of income to the Group

On 18 February 2004, the Group signed the following conditional agreements to further strengthen its financial position and operation

- the Xin Hua Acquisition Agreement; the Penmark Acquisition Agreement; the Kenworth Disposal Agreement;

- the Placing Agreement; and the Subscription Agreement.

Kin Hua is an investment holding company and is benefically interested in the entire equity interest in Beijing Zhong Min Gas Company Limited ("Zhong Min"). Zhong Min is benefically interested in 33% of each of Mian Zhu City Hong Sen Natural Gas Co., Limited ("Hong Sen") and Mian Zhu City Long Teng Gas Installation Co., Limited ("Long Teng"). Hong Sen is principally engaged in the distribution and supply of piped natural gas in the PRC whilst Long Teng is principally engaged in the installation of natural gas distribution facilities in the PRC.

ark is principally engaged in the business of property investment and owns the Zhongda Property which has a total gross floor areas

The above transactions were completed on 30 April 2004. After the completion of the transactions, the principal activities of the Group and its associate are distribution, supply and installation of piped natural gas and property investment.

The PRC has historically relied heavily on coal as its primary energy source, but the PRC government in recent years has strongly encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market now only contributed less than 10% of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

Property investment
During the year, the Group acquired the 24th, 27th and 28th floor together with 19 carparks of Zhongda Square, Shanghai, PRC ("Zhongda Square"). On 30 April 2004, the Group further acquired a unit on 3A floor of Zhongda Square. The Group now has a total of 3,489.64 m² of Zhongda Square together with 19 car parks as the reserve for property investment purpose. The Directors believe that this business segment will generate continuous cash flow and revenue to the Group in the coming years.

As at 31 March 2004, the Group had total assets of HK\$72,053,000, and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$31,279,000, HK\$7,432,000, HK\$33,068,000 and HK\$274,000 respectively.

The Group had a low gearing ratio of 18.23% as at 31 March 2004 which was calculated based on the long term borrowings of HK\$7,432,000 and long term capital of HK\$40,774,000. No gearing ratio is calculated as the Group did not have any long term liabilities as at 31 March 2003. As at 31 March 2004, the cash balances and bank borrowings were principally denominated in Hong Kong dollars. Hence, there is no

significant exposure to foreign exchange rate fluctuation

### CAPITAL STRUCTURE

The Group's long term capital comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section Liquidity and capital resources

### RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in Hong Kong dollars and Renminbi. Since Hong Kong dollars and Renminbi are relatively stable, the exchange risk is not significant.

# CONTINGENT LIABILITIES

In October 2000, Kenworth received a claim of approximately HK\$341 million from a main contractor of a construction project for the alleged breach of a subcontract which Kenworth has not admitted. The claim amount was revised to HK\$141 million in 2002. A counterclaim was submitted by Kenworth against this main contractor for the outstanding contract sum in respect of the completed work and the loss due to the wrongful termination of the subcontract. Under the provisions of the subcontract, the disputed claim is subject to arbitration proceedings between Kenworth and the main contractor. The arbitration application was lodged before the commencement of the Scheme and the process commenced in August 2002 upon the appointment of the arbitrator. As at the date of these financial statements, a security deposit of HK\$5 million has been paid by the Group to the arbitrator and both Kenworth and the main contractor are in the process of submitting information to the arbitrator for assessment.

process of submitting information to the arbitrator for assessment.

The Scheme Administrator is required to await the arbitrator's decision or, in the event that such decision is subject to appeal or further appeal(s) by either party thereto, to await the ultimate outcome and final decision to be made by the relevant appellate body. In any event, the claim, if awarded in favour of the main contractor, is still subject to the terms and conditions of the Schemes.

In relation to the same construction project detailed above, in October 2000 Kenworth also received a claim of approximately HK\$353 million from the contract employer in respect of damages for the alleged breach of the same subcontract. The claim amount was revised to HK\$237 million in 2002. The Scheme Administrator is in the process of examining the grounds for the claim and the outcome of the assessment cannot be determined at this stage.

### CAPITAL COMMITMENTS

As at 31 March 2004, the Group had no significant capital commitments except as disclosed in the section "Post Balance Sheet Events"

### EMPLOYEE SCHEMES

As at 31 March 2004, the Group had 69 employees, all of whom were based in the Hong Kong.

The remuneration policy and package of the Group's employees are reviewed and approved by the Directors. Apart from pension funds, discretionary bonuses are linked to individual performance as recognition of and reward for value creation.

# CHARGES ON GROUP ASSETS

The Group' banking facilities are secured by the Group's properties held for sale of HK\$46,569,000 (2003: Nil) and time deposits of HK\$5,283,000 (2003: HK\$5,122,000).

### REVIEW BY AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice (the "Code"), for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company.

### CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code, as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's bye-laws.

On behalf of the board **Tjia Boen Sien**Managing Director and Deputy Chairm

### Hong Kong, 24 June 2004

Hong Kong, 24-MIN 2004

As the date of this announcement, the executive Directors of the Company are Mr. Wang Ke Duan, Mr. Tjia Boen Sien, Mr. Wang Jing Ning, Mr. Keung Kwok Cheung, Mr. Kong Kwok Fai, Mr. Song Sio Chong and Mr. Mo Shikang and the non-executive Directors are Mr. Siu Man Po and Ms. Wong Sin Yee.

All information required by paragraph 45(1) to 45(3) of Appendix I to to the Listing Rules on the Stock Exchange in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the website of the Stock Exchange in due