



# KEE SHING (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)  
(Stock code: 174)

## ANNOUNCEMENT OF 2006 INTERIM RESULTS

Profit attributable to the Group's shareholders for the first six months ended 30th June, 2006 was reported at HK\$27.3 million, representing a decrease of 22.9% when compared with HK\$35.4 million for the same period last year. The decrease of HK\$8.1 million was mainly the result of the absence of a substantial gain arising from the changes in fair value of investment properties in the first half of 2005 and rising interest cost. The Directors of the Board has today declared an interim dividend of HK\$4.0 cents per share (Interim Dividend of 2005: HK\$10.0 cents per share), payable on or before 19th October, 2006 to shareholders who are registered as such at the close of business on 13th October, 2006.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	<i>Notes</i>	<b>Six months ended 30.6.2006 HK\$'000 (unaudited)</b>	<b>Six months ended 30.6.2005 HK\$'000 (restated) (unaudited)</b>
Turnover	4	920,116	943,972
Other income		3,301	1,901
Changes in inventories of finished goods		32,787	(9,342)
Purchase of goods held for resale		(864,457)	(856,251)
Raw materials and consumables used		(27,789)	(20,565)
Staff costs		(11,570)	(11,036)
Depreciation and amortisation		(1,324)	(1,371)
Other expenses		(13,018)	(16,564)
Gain arising from changes in fair value of investments held for trading		554	1,070
Gain on disposal of available-for-sale investments		585	-
Gains on disposal of investment properties		-	1,336
(Loss) Gains arising from changes in fair value of investment properties		(371)	9,955
Finance costs		(6,052)	(3,656)
Share of profit of associates		984	3,346
Profit before taxation		<u>33,746</u>	<u>42,795</u>
Income tax expense	5	(5,333)	(6,300)
Profit for the period		<u><u>28,413</u></u>	<u><u>36,495</u></u>
Attributable to:			
Equity holders of the parent		27,258	35,384
Minority interests		1,155	1,111
		<u><u>28,413</u></u>	<u><u>36,495</u></u>
Dividend	6	<u><u>44,550</u></u>	<u><u>44,550</u></u>
Earnings per share – basic	7	<u><u>6.1 cents</u></u>	<u><u>7.9 cents</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30th June, 2006

	<b>30.6.2006</b> <i>HK\$'000</i> (unaudited)	31.12.2005 <i>HK\$'000</i> (audited)
<b>Non-current Assets</b>		
Investment properties	266,190	266,561
Property, plant and equipment	32,630	33,532
Interests in associates	28,445	27,676
Available-for-sale investments	27,281	29,299
	<u>354,546</u>	<u>357,068</u>
<b>Current Assets</b>		
Inventories	178,314	145,431
Debtors, deposits and prepayments	189,274	159,900
Bills receivable	13,072	10,965
Investments held for trading	173,583	175,783
Taxation recoverable	8	37
Short term bank deposits	14,265	21,295
Bank balances and cash	82,307	78,849
	<u>650,823</u>	<u>592,260</u>
<b>Current Liabilities</b>		
Creditors and accrued charges	39,396	38,395
Amounts due to minority shareholders of subsidiaries	10,408	11,306
Taxation payable	6,892	3,894
Bank borrowings	343,052	272,928
	<u>399,748</u>	<u>326,523</u>
<b>Net Current Assets</b>	<u>251,075</u>	<u>265,737</u>
<b>Total Assets Less Current Liabilities</b>	<u>605,621</u>	<u>622,805</u>
<b>Capital and Reserves</b>		
Share capital	22,275	22,275
Reserves	552,564	571,124
Equity attributable to equity holders of the parent	574,839	593,399
<b>Minority Interests</b>	<u>22,744</u>	<u>21,733</u>
<b>Total Equity</b>	<u>597,583</u>	<u>615,132</u>
<b>Non-current Liabilities</b>		
Deferred tax liabilities	8,038	7,673
	<u>605,621</u>	<u>622,805</u>

Notes:

**1. REVIEWS OF INTERIM RESULTS**

The interim results have been reviewed by the Audit Committee.

**2. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**3. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005 except as described below:

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006 respectively. The adoption of the new HKFRSs has resulted in change to the Group's accounting policy in the following area that has an effect on the results for the current and prior accounting periods have been prepared and presented.

#### Fair value option

In the current period, the Group has applied HKAS 39 (Amendment) "The fair value option" which is effective for annual periods beginning on or after 1st January, 2006.

Prior to 1st January, 2006, the Group designated certain financial instruments as at fair value through profit or loss. Upon the application of this amendment, the Group has reclassified certain financial instruments as available-for-sale investments which do not meet the conditions to be classified as at fair value through profit or loss.

A debit adjustment of HK\$600,000 has been transferred from the Group's retained earnings to investment revaluation as at 1st January, 2005.

For the financial impact on the Group's profit for the period, this change in accounting policy has resulted in a decrease in loss arising from changes in fair value of available-for-sale investments of HK\$1,433,000 (six months ended 30th June, 2005: HK\$1,773,000).

#### POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.

#### 4. SEGMENT INFORMATION

The turnover and segment results of the Group for the six months ended 30th June, 2006, analysed by business segments which is the primary segment, are as follows:

	For the six months ended 30th June, 2006				For the six months ended 30th June, 2005			
	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	909,519	-	909,519	33,224	933,258	-	933,258	24,845
Property investment	8,437	640	9,077	5,874	7,736	600	8,336	17,028
Security investment	1,683	-	1,683	720	2,733	-	2,733	2,773
Other activities	477	-	477	40	245	-	245	28
Eliminations	-	(640)	(640)	-	-	(600)	(600)	-
Consolidated	<u>920,116</u>	<u>-</u>	<u>920,116</u>	<u>39,858</u>	<u>943,972</u>	<u>-</u>	<u>943,972</u>	<u>44,674</u>
Interest income from bank deposits			1,663				1,582	
Unallocated other income			1,638				319	
Unallocated corporate expenses			(4,345)				(3,470)	
Finance costs			(6,052)				(3,656)	
Share of profit of associates			984				3,346	
Profit before taxation			<u>33,746</u>				<u>42,795</u>	

## 5. INCOME TAX EXPENSE

	Six months ended 30.6.2006 HK\$'000	Six months ended 30.6.2005 HK\$'000
The tax charge comprises:		
Current taxation		
Hong Kong Profits Tax	3,948	4,294
Profits tax outside Hong Kong	1,020	958
	<u>4,968</u>	<u>5,252</u>
Deferred taxation	365	1,048
	<u>5,333</u>	<u>6,300</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods. Taxation outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

## 6. DIVIDEND

	Six months ended 30.6.2006 HK\$'000	Six months ended 30.6.2005 HK\$'000
Final dividend paid in respect of the year ended 31st December, 2005 of HK10 cents (year ended 31st December, 2004: HK10 cents) per ordinary share	<u>44,550</u>	<u>44,550</u>

Interim dividend of HK4.0 cents per share, amounting to HK17,820,000, was approved by the board of directors on 20th September, 2006.

## 7. EARNINGS PER SHARE

The calculation of the earnings per share attributable to the equity holders of the parent is based on the profit attributable to the equity holders of the parent for the period of HK\$27,258,000 (six months ended 30.6.2005 as restated: HK\$35,384,000) and on 445,500,000 ordinary shares (six months ended 30.6.2005: 445,500,000 ordinary shares) in issue during the period.

## INTERIM DIVIDEND

Interim dividend of HK4.0 cents per share (2005: HK10.0 cents per share) has been declared payable on or before 19th October, 2006 to shareholders whose names appear on the register of members of the Company on 13th October, 2006. The register of members of the Company will be closed from 10th October, 2006 to 13th October, 2006, 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, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 9th October, 2006.

## 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 Results	
	Six months ended 30.6.2006 HK\$'000	30.6.2005 HK\$'000	Six months ended 30.6.2006 HK\$'000	30.6.2005 HK\$'000
Electroplating Materials and Chemicals	838,221	840,331	27,431	17,073
Paint and Coating Chemicals	40,050	63,440	2,036	3,242
Stainless Steel	31,248	29,487	3,757	4,530
Total	<u>909,519</u>	<u>933,258</u>	<u>33,224</u>	<u>24,845</u>

#### *Electroplating Materials and Chemicals*

With support of strong metal prices, total sales volume only dropped slightly by 0.3% to HK\$838.2 million for the first six months of 2006 in spite of about 20% fall in total sales quantities. The rise in profits was primarily due to sharp rise in metal price during the period under review. Market demand was generally weak after Chinese New Year as the astounding metal prices daunted most customers' buying interests. Amid surging metal prices, rising interest costs, stricter Mainland China governmental rules as well as shortage in electricity and skilled labor, many factories either ceased business or scaled down their production. Declining demand has caused cut-throat price war since the second quarter throughout China and other South-east Asian regions.

### **Precious Metal Products**

Oversupply situation persisted in the market. Intense competition among precious metal producers continued and slashed selling prices. Tighter environmental regulations in China also trimmed down overall demand from electroplating industries. Limited financial resources and high metal prices forced many factories to reduce the size of purchase orders.

### **Base Metal Products**

Sales fell by 15.2% in the first six months of 2006, partly because of loss in electroplating nickel sales arising from quality problem in the first quarter and partly because of weak demand in China and South-east Asian region. Many factories could neither pass the rise in metal prices to their end customers nor had adequate funds to finance new purchases. Stockpiling situation and de-stocking effect pressured down electroplating nickel's selling prices in China region even lower than international market price. Electroplating copper business held firm and stable, although a slowing sign was shown at the end of second quarter.

Beside the rise in metal prices, the increase in inventory at the period end was because slow-turnover in electroplating nickel at the period end created stockpiling in the Group's warehouse. Majority of the accumulated stocks have been sold in July and new purchase orders have been cut in the third quarter.

### *Paint and Coating Chemicals*

Sales turnover in the first six months of 2006 dropped more than one-third primarily due to declining demand from local Chinese chemical factories. Local Chinese chemical factories not only suffered from rising material costs but also tighter requirement from Chinese government on safety and environmental issues. As production capacity of several Chinese local suppliers increased substantially in the past year, oversupply situation has caused prices of various chemical products sold in China dropped lower than international prices. The price war persisted throughout the period under review. Due to the wide price gap between domestic and imported products, the Group focused mainly to foreign customers who concerned more on quality and services. Also, the Group continued to explore new users on high-ended chemical products in the market.

### *Stainless Steel*

Demand in stainless steel turned strong during the first six months of 2006 because de-stocking process was completed at the end of last year. Stainless steel base prices have risen sharply since the beginning of this year due to tight supply and scarcity in choices. Supply has been constraint by major suppliers since the second quarter as global demand continues to expand. As at 30th June, 2006, inventory was dropped by 34.2% when compared with the figure as at 31st December, 2005. Several varieties of stainless steel materials were in shortage at the end of second quarter because of delayed shipment. Along with current difficult business environment, the Group has taken cautious control measures to monitor inventory level and credits extension to customers during the period.

### **Property Investment Division**

Total rental income rose by 9.1% to HK\$8.4 million in the first six months of 2006 when compared with HK\$7.7 million in the same period of 2005.

Average occupancy rate for Hong Kong offices was 100% during the period under review. Hong Kong prime office rents continued to rise in the first six months of 2006 due to little new completed office supply and strong demand mainly from financial sector. Rental demand of second-tier offices in prime location remained firm and so did market rent.

Average occupancy rate of Shanghai offices during the first six months of 2006 was 100%. Supply of office spaces in Shanghai downtown area was still far below demand. Office market rent in prime offices continued to soar. Due to shortage supply of high-ended office spaces, tenants continued to pre-commit office spaces far in advance of the completion of the new office buildings. Demand for Grade A offices continue to rise because of the expansion in office space from financial sector this year.

Average occupancy rate of Shanghai residential properties during the first six months of 2006 was at 90.2% while 85.6% was recorded for the first six months of 2005. As at 30th June, 2006, occupancy rate was at 91.3%. Since June 2006, Shanghai residential property market faced trembling situation. Transaction volume of commercial residential properties dropped continually for several weeks after the implementation of stepping-up new measures by the Chinese central government aiming in cooling down China property market. Market sentiment was weak and pessimistic. Many home buyers deferred their purchase plans. In rental demand side, however, market was fairly satisfactory but market rent stayed unchanged.

### **Securities Investment Division**

As at 30th June, 2006, the Group used its own fund to finance 92.3% of total investment in securities and the remaining 7.7% was financed by bank borrowings.



During the first six months of 2006, major economies around the world continued to expand and inflation was relatively benign. Global downfall in equity markets during May and June period was considered to be healthy correction rather than a signal of change in economic fundamentals. US dollar showed volatile due to conflicts between concerns in twin deficits and of being world's main reserve currency. Yields on 10-year government bonds rose between 50 and 70 basis points in the U.S., the Eurozone, Japan and the U.K. As market is expected the U.S. will enter into moderating growth period, monetary tightening has been eased in the second half year of 2006.

During the period under review, we disposed part of equity funds and captured a realized gain of HK\$1.1 million before the fall in May and June period. However, we still incurred an unrealized loss of HK\$0.6 million at fair value of investment held for trading as at 30th June, 2006. Also, we disposed of a long term investment in an unlisted Chinese equity with a gain of HK\$585,000. Dividend income was reported at HK\$1.4 million for the first six months of 2006 when compared with HK\$1.5 million for the first six months of 2005. Interest income generated from portfolio was reported at HK\$0.8 million.

The outlook of global markets will highly depend on market reaction to data on inflation and economic growth in the coming months. Vigorous volatility may still dominate various market segments. In the coming months, we will continually to develop a more conservative position during times of increasing risk aversion.

#### **EMPLOYEES**

Total number of staff was increased by 1 to 86 as at 30th June, 2006. Staff cost increased by 4.2% in the first six months of 2006 to HK\$11.6 million when compared to HK\$11.1 million in the first six months of 2005. The rise in staff cost was in line with cost of inflation and to retain our competitiveness in current labour market. The Group continued to encourage staff continuing his/her further studies in his/her particular field to enhance their professional knowledge and up-to-date practices.

#### **FINANCIAL RESOURCES AND LIQUIDITY**

For the first six months of 2006, cash outflow from operation was HK\$24.9 million when compared cash inflow from operation of HK\$29.3 million for the first six months of 2005. Additional financing in inventory and receivables were the major reasons of cash outflow during the period under review. Return on equity for the first six months of 2006 fell to 4.7% when compared with 6.0% for the first six months of 2005.

Inventory as at 30th June, 2006 was posted at HK\$178.3 million, representing an increase of 22.6% when compared with HK\$145.4 million as at 31st December, 2005. The increase in inventory was results of the rise in metal prices as well as accumulated stocks at the period end due to slow sales. Trade debtor amounted to HK\$165.9 million as at 30th June, 2006, representing a rise of HK\$22.2 million when compared with HK\$143.6 million as at 31st December, 2005. The rise in trade debtor stemmed from high metal prices as well as longer credit period extended to customers under tough business environment.

#### **DEBT STRUCTURE**

Total bank borrowings as at 30th June, 2006 was HK\$343.1 million (as at 31st December, 2005: HK\$272.9 million). As at 30th June, 2006, total banking facilities granted by lenders to the Group amounted to HK\$718.3 million. Average banking utilization rate accounted at 38.1%. Gearing ratio, which was defined as total bank borrowings divided by equity attributable to equity holders of the parent rose to 0.60:1 as at the period ended 30th June, 2006 when compared with 0.46:1 as at the year ended 31st December, 2005. About 96.0% of aggregated sum of inventory and receivables were financed by bank borrowings at the period end.

All borrowings were bearing interests on floating rates and matured within one year. They were in form of money market bank loans, overdraft and trust receipt for the first six months of 2006. Money market bank loans were either used to finance additional stocks held or assets purchased in the same foreign currencies. Total finance cost during the period under review accounted HK\$6.1 million (the first six months of 2005: HK\$3.7 million).

#### **FOREIGN CURRENCY RISK**

The Group's transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, Australia Dollars, British Sterling, Reminbi, Singapore Dollars and New Taiwanese Dollars. In order to reduce the risk, the Group sometimes used forward exchange contracts to hedge the return currency of such transaction or borrowed the same currency to fund such transaction. As at 30th June, 2006, there was no forward foreign contract outstanding. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies. The Group translated overseas profits/loss at average exchange rates as at 30th June, 2006.

## PROSPECTS

Trading business remains sluggish in the third quarter. As commodities prices keep beating new record highs, many customers are terrified of further rise or sudden fall in the later days. Irregular purchase pattern is common across various industries that the Group involves. Inventory control and receivable management is still our prime objective in the second half year of 2006. A pause in rising interest rate decided by the U.S. Federal Reserve eases growing pressures in borrowing costs. Rental market in Shanghai properties shows positive. It is expected property transaction volumes in Shanghai will reduce significantly as interested buyers will stay sidelined until clear and complete rules and regulations being announced by the Chinese central government. The Group continues to take cautious approach in managing the securities portfolio. With the Group's management team taking full efforts to regularly review, control and maneuver costs and strategies, we remain positive confidence in the second half year of 2006.

## AUDIT COMMITTEE

Up to the date of this interim results announcement date, the Group's audit committee has met two times to review audit findings, accounting principles and practices adopted by the Group, and to discuss internal and external risk control area before submission of the management and financial reports to the Board of Directors for approval. The external auditors together with the Group's managing director, finance director and assistant financial controller have attended all meetings.

## 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, 2006.

## CORPORATE GOVERNANCE

In accordance with the standards set on the governance requirements and best practices introduced by the Rules Governing the Listing of Securities ("the Listing Rules") on the Stock Exchange of Hong Kong Limited, the Company has complied with the Codes of Corporate Governance Practices throughout the accounting period ended 30th June, 2006.

In accordance with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") contained in Appendix 10 of the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. The Board has also adopted of a securities dealing policy setting out the Company's policy and rules governing the dealings in the securities of the Company by all employees of the Company and its subsidiaries and a confidentiality policy setting out the responsibilities of all employees of the Group in dealing with the Group's information that is considered to be confidential.

For the accounting period ended 30th June, 2006, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's Codes of Conduct regarding Directors' securities transactions.

## 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.

As at the date hereof, the Board consists of the following persons:

### *Executive Directors:*

Leung Shu Wing (*Chairman*)  
Leung Miu King  
Wong Chi Kin  
Wong Choi Ying

### *Non-Executive Director:*

Yuen Tin Fan, Francis

### *Independent Non-Executive Directors:*

Wong Kong Chi  
Lai Chung Wing, Robert  
Chan Wing Lee

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

Hong Kong, 20th September, 2006

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