

On behalf of the Board of Directors, I am pleased to announce the unaudited interim results of the Group for the six months ended 30th June, 2004. The interim financial report has been reviewed by the Company's audit committee in compliance with the Hong Kong Statement of Standard Accounting Practice and the Company's auditor, Deloitte Touche Tohmatsu, whose independent review report to the Board of Directors is set out below.

## FINANCIAL HIGHLIGHT

|   | Six months ended<br>30th June, |                  | Year ended<br>31st December, |
|---|--------------------------------|------------------|------------------------------|
|   | 2004<br>HK\$'000               | 2003<br>HK\$'000 | 2003<br>HK\$'000             |
| <b>Income Statements</b>                  |                                |                  |                              |
| Turnover                                  | 870,320                        | 538,647          | 1,224,230                    |
| Profit from Operation                     | 26,018                         | 20,184           | 71,047                       |
| Profit Attributable to Shareholders       | 17,275                         | 8,960            | 38,707                       |
| Dividend                                  | 44,550                         | 6,683            | 17,820                       |
| <b>Balance Sheets</b>                     |                                |                  |                              |
| Total Assets                              | 963,577                        | 816,119          | 934,586                      |
| Total Borrowings                          | 277,740                        | 171,188          | 239,972                      |
| Shareholders' Funds                       | 612,418                        | 583,319          | 606,775                      |
| <b>Cash Flow</b>                          |                                |                  |                              |
| Net Cash Outflow before Financing         | (30,927)                       | (37,556)         | (22,619)                     |
| Net Cash Inflow/(Outflow)<br>in Financing | 24,820                         | (14,561)         | 43,167                       |
| Capital Expenditure                       | 1,344                          | 1,110            | 2,132                        |
| Earnings Per share                        | 3.88¢                          | 2.00¢            | 8.69¢                        |
| Dividends Per Share                       | 10.0¢                          | 1.5¢             | 3.0¢                         |
| Shareholders' Fund per Share              | HK\$1.37                       | HK\$1.31         | HK\$1.36                     |
| Interest Cover (times)                    | 13.53x                         | 6.41x            | 13.17x                       |
| Dividend Cover (times)                    | 0.39x                          | 1.33x            | 2.90x                        |

### Notes:

- Earning per shares is calculated by dividing profit attributable to shareholders by 445,500,000 shares in issue during 30th June, 2004. (30th June, 2003: 445,500,000 shares)
- Interest cover is calculated by dividing profit attributable to shareholders before tax, minority interest and interest charges by interest charges.
- Dividend cover is calculated by dividing Earnings Per Share by Dividends Per Share.

## **CHAIRMAN'S STATEMENT**

The profit attributable to shareholders for the six months ended 30th June, 2004 was HK\$17.3 million, representing an advance of 92.2% compared with HK\$9.0 million in the same period a year earlier. Earnings per share was 3.88 Hong Kong cents. The Directors of the Board has resolved to declare an interim dividend of HK10 cents per share (2003: HK1.5 cent per share) to shareholders whose registered at the close of business on 7th October, 2004. The share registers will be closed from 4th October, 2004 to 7th October, 2004, 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 share register, Standard Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 30th September, 2004.

## **BUSINESS REVIEW**

With help of rise in metal prices and improvement of economic environment, our trading turnover reported a strong growth of 62.9% for the first half year of 2004 to HK\$860.5 million over the same period last year. Although we have adversely affected from slow demand after the Chinese government imposed measures to tighten credits extending to borrowers as well as power shortage across China in the second quarter, operating profits performed satisfactory rising from HK\$16.9 million for the first six months of 2003 to HK\$24.1 million for the first six months of 2004.

Properties investment segment contributed HK\$4.2 million to the operating profit during the period under review when compared with HK\$3.9 million in the same period last year. Office demand in Hong Kong improved slightly in the beginning of the year due to improvement of overall business environment. Vacancy rate of Shanghai office portfolio remained low at the end of the period as reported only about 5% available spaces for leasing. Rental growth in Shanghai residential portfolio stayed flat among abundant supply available in the market.

Securities portfolio was underperformed during the period under review. In the midst of highly volatile investment market, we recorded a net unrealized loss of HK\$3.1 million at the period end but dividend and interest income generated from the portfolio recorded HK\$2.5 million during the period.

## **AUDIT COMMITTEE**

The Group's audit committee has met twice to date in this year to review audit findings, accounting principles and practices adopted by the Group, and to discuss internal and external risk control areas before submitting the management and financial reports to the Board of Directors for approval. The external auditors together with the Group's finance director and two senior management personnel have attended all meetings.

To take this opportunity, on behalf of the Board, I would like to express our Group's sincere appreciation and thanks to two resigned independent non-executive directors, Mr. Ng Hon Ying and Mr. Leung Ding Bong, Ronald, who both have contributed much efforts and services to the Group. I also welcome two new appointed independent non-executive directors, Mr. Lai Chung Wing, Robert and Mr. Chan Wing Lee, to join our Group and believe their experience and expertise will help the Group in the future development. Both new appointed independent non-executive directors have been appointed and become members of the Group's Audit Committee.

## **PROSPECTS**

Following the robust demand since the end of 2003, industrial demand showed a slowdown trend in the second quarter. Although the economic growth and market demand is still filled with uncertainties, there is a progressively sign of picking-up demand in the second half year. Anticipated volatile raw material prices but persistent global imbalance situation in supply and demand for most industrial metals and chemicals, we will take efforts in controlling Group's inventory level and purchasing strategies. Shanghai properties are still enjoying stable rental demand growth mainly coming from multinational companies and small-to-medium sized local companies. In the coming months or even year, it is expected that global financial markets will continue to experience immense volatility as uncertainties of global economic outlook and the threat of terror remain. We will keep our focus in managing all risks in dealing with such uncertainties and find opportunities within this challenging environment.

## **Leung Shu Wing**

*Chairman*

Hong Kong, 15th September, 2004

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30th June, 2004

|  | Notes | Six months<br>ended<br>30.6.2004<br>HK\$'000<br>(unaudited) | Six months<br>ended<br>30.6.2003<br>HK\$'000<br>(unaudited) |
|--|-------|---|---|
| Turnover   | 3     | 870,320   | 538,647   |
| Other operating income   | 4     | 3,474   | 1,232   |
| Changes in inventories of<br>finished goods                          |       | 14,214  | 4,564   |
| Purchases of goods held for resale                                   |       | (820,657)   | (497,547)   |
| Raw materials and consumables used                                   |       | (10,144)  | (3,989)   |
| Staff costs  |       | (10,268)  | (9,904)   |
| Depreciation and amortisation  |       | (932)   | (1,002)   |
| Other operating expenses   |       | (16,860)  | (12,781)  |
| Net realised gain and unrealised<br>(loss) gain on other investments |       | (3,129)   | 964   |
| <b>Profit from operations</b>  |       | <b>26,018</b>   | 20,184  |
| Finance costs  | 5     | (1,749)   | (2,105)   |
| Share of losses of associates  |       | (2,041)   | (4,343)   |
| Amortisation of goodwill arising on<br>acquisition of an associate   |       | -   | (1,709)   |
| <b>Profit before taxation</b>  |       | <b>22,228</b>   | 12,027  |
| Income tax expense   | 6     | (4,643)   | (2,418)   |
| <b>Profit before minority interests</b>                              |       | <b>17,585</b>   | 9,609   |
| Minority interests   |       | (310)   | (649)   |
| <b>Net profit for the period</b>                                     |       | <b>17,275</b>   | 8,960   |
| <b>Dividend</b>  | 7     | <b>11,138</b>   | 6,683   |
| <b>Earnings per share</b>  | 8     | <b>3.9 cents</b>  | 2.0 cents   |

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30th June, 2004

|  | Notes | 30.6.2004<br>HK\$'000<br>(unaudited) | 31.12.2003<br>HK\$'000<br>(audited) |
|--|-------|--------------------------------------|-------------------------------------|
| <b>Non-current Assets</b>                            |       |                                      |                                     |
| Investment properties                                | 9     | 242,430                              | 242,430                             |
| Property, plant and equipment                        |       | 33,363                               | 32,879                              |
| Interests in associates                              | 10    | 27,227                               | 29,207                              |
| Investments in securities                            | 11    | 32,650                               | 25,804                              |
| Long term bank deposits                              |       | 31,200                               | 38,800                              |
| Equity-linked deposits                               |       | 812                                  | 1,110                               |
|  |       | <u>367,682</u>                       | <u>370,230</u>                      |
| <b>Current Assets</b>                                |       |                                      |                                     |
| Inventories  | 12    | 103,607                              | 89,665                              |
| Debtors, deposits and prepayments                    | 13    | 135,603                              | 119,285                             |
| Bills receivable                                     |       | 33,729                               | 32,122                              |
| Taxation recoverable                                 |       | 200                                  | 175                                 |
| Investments in securities                            | 11    | 121,816                              | 115,984                             |
| Short term bank deposits                             |       | 132,130                              | 127,950                             |
| Bank balances and cash                               |       | 68,810                               | 79,175                              |
|  |       | <u>595,895</u>                       | <u>564,356</u>                      |
| <b>Total Assets</b>                                  |       | <u><u>963,577</u></u>                | <u><u>934,586</u></u>               |
| <b>EQUITY AND LIABILITIES</b>                        |       |                                      |                                     |
| <b>CAPITAL AND RESERVES</b>                          |       |                                      |                                     |
| Share capital  | 14    | 22,275                               | 22,275                              |
| Reserves   |       | 590,143                              | 584,500                             |
|  |       | <u>612,418</u>                       | <u>606,775</u>                      |
| <b>Minority Interests</b>                            |       | <u>17,793</u>                        | <u>17,592</u>                       |
| <b>Non-current Liabilities</b>                       |       |                                      |                                     |
| Amounts due to minority shareholders of subsidiaries |       | 13,338                               | 13,338                              |
| Deferred tax liabilities                             | 15    | 6,102                                | 6,102                               |
|  |       | <u>19,440</u>                        | <u>19,440</u>                       |
| <b>Current Liabilities</b>                           |       |                                      |                                     |
| Creditors and accrued charges                        | 16    | 31,140                               | 48,236                              |
| Taxation payable                                     |       | 5,046                                | 2,571                               |
| Bank borrowings                                      | 17    | 277,740                              | 239,972                             |
|  |       | <u>313,926</u>                       | <u>290,779</u>                      |
| <b>Total Equities and Liabilities</b>                |       | <u><u>963,577</u></u>                | <u><u>934,586</u></u>               |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

|   | Share<br>capital<br>HK\$'000 | Share<br>premium<br>HK\$'000 | Capital<br>reserve<br>HK'000 | Investment<br>property<br>revaluation<br>reserve<br>HK\$'000 | Property<br>revaluation<br>reserve<br>HK\$'000 | Translation<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$000 |
|---|------------------------------|------------------------------|------------------------------|--|--|------------------------------------|---------------------------------|------------------|
| At 1st January, 2003  | 22,275                       | 153,728                      | 22,988                       | 6,916  | 11,571   | 1,140                              | 362,516                         | 581,134          |
| Exchange differences arising on translation of overseas operations            | -                            | -                            | -                            | -  | -  | (86)                               | -                               | (86)             |
| Share of an associate's movement in reserves                                  | -                            | -                            | -                            | (219)  | 4  | 416                                | 1                               | 202              |
| Deferred tax liability arising on change in tax rate                          | -                            | -                            | -                            | -  | (208)  | -                                  | -                               | (208)            |
| Net (loss) gain not recognised in the condensed consolidated income statement | -                            | -                            | -                            | (219)  | (204)  | 330                                | 1                               | (92)             |
| Net profit for the period   | -                            | -                            | -                            | -  | -  | -                                  | 8,960                           | 8,960            |
| Dividend paid   | -                            | -                            | -                            | -  | -  | -                                  | (6,683)                         | (6,683)          |
| At 30th June, 2003  | 22,275                       | 153,728                      | 22,988                       | 6,697  | 11,367   | 1,470                              | 364,794                         | 583,319          |
| Exchange differences arising on translation of overseas operations            | -                            | -                            | -                            | -  | -  | 187                                | -                               | 187              |
| Share of an associate's movement in reserves                                  | -                            | -                            | -                            | 163  | (1)  | 41                                 | 1                               | 204              |
| Net gain (loss) not recognised in the condensed consolidated income statement | -                            | -                            | -                            | 163  | (1)  | 228                                | 1                               | 391              |
| Net profit for the period   | -                            | -                            | -                            | -  | -  | -                                  | 29,747                          | 29,747           |
| Dividend paid   | -                            | -                            | -                            | -  | -  | -                                  | (6,682)                         | (6,682)          |
| At 31st December, 2003  | 22,275                       | 153,728                      | 22,988                       | 6,860  | 11,366   | 1,698                              | 387,860                         | 606,775          |
| Exchange differences arising on translation of overseas operations            | -                            | -                            | -                            | -  | -  | (588)                              | -                               | (588)            |
| Share of an associate's movement in reserves                                  | -                            | -                            | -                            | 34   | (1)  | 60                                 | 1                               | 94               |
| Net gain (loss) not recognised in the condensed consolidated income statement | -                            | -                            | -                            | 34   | (1)  | (528)                              | 1                               | (494)            |
| Net profit for the period   | -                            | -                            | -                            | -  | -  | -                                  | 17,275                          | 17,275           |
| Dividend paid   | -                            | -                            | -                            | -  | -  | -                                  | (11,138)                        | (11,138)         |
| At 30th June, 2004  | 22,275                       | 153,728                      | 22,988                       | 6,894  | 11,365   | 1,170                              | 393,998                         | 612,418          |



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30th June, 2004

|  | <b>Six months<br/>ended<br/>30.6.2004<br/>HK\$'000<br/>(unaudited)</b> | Six months<br>ended<br>30.6.2003<br>HK\$'000<br>(unaudited) |
|--|--|---|
| Net cash used in operation activities                        | (31,082)   | (37,536)  |
| Net cash from (used in) investing activities                 | 155  | (20)  |
| Net Cash from (used in) financing activities                 | <u>24,820</u>  | <u>(14,561)</u>   |
| Net decrease in cash and cash equivalents                    | (6,107)  | (52,117)  |
| Cash and cash equivalents at beginning of the period         | 207,012  | 186,168   |
| Effect of foreign exchange rate changes                      | <u>35</u>  | <u>(20)</u>   |
| Cash and cash equivalent at end of the period                | <u><u>200,940</u></u>  | <u><u>134,031</u></u>                                       |
| <b>Analysis of the balances of cash and cash equivalents</b> |  |   |
| Short term bank deposits                                     | 132,130  | 87,244  |
| Bank balances and cash                                       | <u>68,810</u>  | <u>46,787</u>   |
|  | <u><u>200,940</u></u>  | <u><u>134,031</u></u>                                       |

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30th June, 2004

**1. 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 Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

**2. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2003.

### 3. SEGMENT INFORMATION

The turnover and segment results of the Group for the six months ended 30th June, 2004, analysed by business segments which is the primary segment, are as follows:

For the six months ended 30th June, 2004

|                                       | Sales of<br>chemicals<br>and metals<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Security<br>investment<br>HK\$'000 | Other<br>activities<br>HK\$'000 | Elimination<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---------------------------------------|---|------------------------------------|------------------------------------|---------------------------------|-------------------------|--------------------------|
| <b>TURNOVER</b>                       |   |                                    |                                    |                                 |                         |                          |
| External                              | 860,527   | 7,030                              | 2,175                              | 588                             | -                       | 870,320                  |
| Inter-segment                         | -   | 897                                | -                                  | 4,007                           | (4,904)                 | -                        |
| Total                                 | <u>860,527</u>                                  | <u>7,927</u>                       | <u>2,175</u>                       | <u>4,595</u>                    | <u>(4,904)</u>          | <u>870,320</u>           |
| <b>SEGMENT RESULT</b>                 | <u>24,136</u>                                   | <u>4,192</u>                       | <u>(980)</u>                       | <u>48</u>                       | <u>-</u>                | <u>27,396</u>            |
| Interest income from<br>bank deposits |   |                                    |                                    |                                 |                         | 1,155                    |
| Unallocated other<br>operating income |   |                                    |                                    |                                 |                         | 2,319                    |
| Unallocated corporate<br>expenses     |   |                                    |                                    |                                 |                         | (4,852)                  |
| <b>Profit from operations</b>         |   |                                    |                                    |                                 |                         | <u>26,018</u>            |

For the six months ended 30th June, 2003

|                                       | Sales of<br>chemicals<br>and metals<br>HK\$'000 | Property<br>investment<br>HK\$'000 | Security<br>investment<br>HK\$'000 | Other<br>activities<br>HK\$'000 | Elimination<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---------------------------------------|---|------------------------------------|------------------------------------|---------------------------------|-------------------------|--------------------------|
| <b>TURNOVER</b>                       |   |                                    |                                    |                                 |                         |                          |
| External                              | 528,153   | 6,775                              | 1,944                              | 1,775                           | -                       | 538,647                  |
| Inter-segment                         | -   | 756                                | -                                  | 3,917                           | (4,673)                 | -                        |
| Total                                 | <u>528,153</u>                                  | <u>7,531</u>                       | <u>1,944</u>                       | <u>5,692</u>                    | <u>(4,673)</u>          | <u>538,647</u>           |
| <b>SEGMENT RESULT</b>                 | <u>16,861</u>                                   | <u>3,868</u>                       | <u>2,806</u>                       | <u>61</u>                       | <u>-</u>                | <u>23,596</u>            |
| Interest income<br>from bank deposits |   |                                    |                                    |                                 |                         | 1,064                    |
| Unallocated other<br>operating income |   |                                    |                                    |                                 |                         | 168                      |
| Unallocated corporate<br>expenses     |   |                                    |                                    |                                 |                         | (4,644)                  |
| <b>Profit from operations</b>         |   |                                    |                                    |                                 |                         | <u>20,184</u>            |

Inter-segment transactions are charged at prevailing market rates.

**4. OTHER OPERATING INCOME**

Other operating income comprises:

|  | <b>Six months<br/>ended<br/>30.6.2004<br/>HK\$'000</b> | Six months<br>ended<br>30.6.2003<br>HK\$'000 |
|--|--|--|
| Interest income from bank deposits                   | 1,155  | 1,064  |
| Gain on disposal of property,<br>plant and equipment | 392  | –  |
| Sundry income  | 1,927  | 168  |
|  | <u>3,474</u>   | <u>1,232</u>                                 |

**5. FINANCE COSTS**

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

**6. INCOME TAX EXPENSE**

The tax charge comprises:

|  | <b>Six months<br/>ended<br/>30.6.2004<br/>HK\$'000</b> | Six months<br>ended<br>30.6.2003<br>HK\$'000 |
|--|--|--|
| Current taxation                             |  |  |
| Hong Kong Profits Tax                        | 3,217  | 1,965  |
| Profit tax outside Hong Kong                 | 1,393  | 306  |
|  | <u>4,610</u>   | <u>2,271</u>                                 |
| Deferred taxation                            |  |  |
| Attributable to change in tax rate (note 15) | –  | 113  |
| Share of taxation attributable to associates | 33   | 34   |
|  | <u>4,643</u>   | <u>2,418</u>                                 |

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2003: 17.5%) of the estimated assessable profit for the period.

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

**7. DIVIDEND**

|   | <b>Six months<br/>ended<br/>30.6.2004<br/>HK\$'000</b> | Six months<br>ended<br>30.6.2003<br>HK\$'000 |
|---|--|--|
| Final dividend paid in respect of year ended<br>31st December, 2003 of 2.5 cents<br>(year ended 31st December, 2002: 1.5 cents)<br>per ordinary share | <u>11,138</u>  | <u>6,683</u>                                 |

Interim dividend of 10.0 cents per share, amounting to HK\$44,550,000, was approved by the board of directors on 15th September, 2004.



**8. EARNINGS PER SHARE**

The calculation of the earnings per share is based on the net profit for the period of HK\$17,275,000 (six months ended 30th June, 2003: HK\$8,960,000) and on 445,500,000 ordinary shares (six months ended 30th June, 2003: 445,500,000 ordinary shares) in issue during the period.

**9. INVESTMENT PROPERTIES**

The directors consider that the values of the investment properties as at 30th June, 2004 would not differ materially from the professional valuation made as at 31st December, 2003 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

**10. INTEREST IN ASSOCIATES**

|  | 30.6.2004<br>HK\$'000 | 31.12.2003<br>HK\$'000 |
|--|-----------------------|------------------------|
| Share of net assets  | 27,227                | 29,207                 |
| Goodwill arising on acquisition, net                                     | 20,504                | 20,504                 |
| Impairment loss recognised in respect of goodwill arising on acquisition | (20,504)              | (20,504)               |
|  | <u>27,227</u>         | <u>29,207</u>          |

**11. INVESTMENTS IN SECURITIES**

|   | Investment securities |                        | Other investments     |                        | Total                 |                        |
|---|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
|   | 30.6.2004<br>HK\$'000 | 31.12.2003<br>HK\$'000 | 30.6.2004<br>HK\$'000 | 31.12.2003<br>HK\$'000 | 30.6.2004<br>HK\$'000 | 31.12.2003<br>HK\$'000 |
| Equity securities:                                  |                       |                        |                       |                        |                       |                        |
| Listed – Hong Kong                                  | –                     | –                      | 35,603                | 39,330                 | 35,603                | 39,330                 |
| Listed – overseas                                   | 3,132                 | 3,132                  | 15,181                | 12,410                 | 18,313                | 15,542                 |
| Unlisted  | –                     | –                      | 2,601                 | 3,701                  | 2,601                 | 3,701                  |
|   | <u>3,132</u>          | <u>3,132</u>           | <u>53,385</u>         | <u>55,441</u>          | <u>56,517</u>         | <u>58,573</u>          |
| Mutual funds:                                       |                       |                        |                       |                        |                       |                        |
| Quoted  | –                     | –                      | 9,002                 | –                      | 9,002                 | –                      |
| Unlisted  | 18,574                | 10,628                 | 23,423                | 20,161                 | 41,997                | 30,789                 |
|   | <u>18,574</u>         | <u>10,628</u>          | <u>32,425</u>         | <u>20,161</u>          | <u>50,999</u>         | <u>30,789</u>          |
| Debt securities:                                    |                       |                        |                       |                        |                       |                        |
| Listed – overseas                                   | –                     | –                      | 16,070                | 12,634                 | 16,070                | 12,634                 |
| Unlisted  | 8,343                 | 8,343                  | 22,537                | 31,449                 | 30,880                | 39,792                 |
|   | <u>8,343</u>          | <u>8,343</u>           | <u>38,607</u>         | <u>44,083</u>          | <u>46,950</u>         | <u>52,426</u>          |
| Total securities:                                   |                       |                        |                       |                        |                       |                        |
| Listed  | 3,132                 | 3,132                  | 66,854                | 64,374                 | 69,986                | 67,506                 |
| Unlisted  | 26,917                | 18,971                 | 57,563                | 55,311                 | 84,480                | 74,282                 |
|   | <u>30,049</u>         | <u>22,103</u>          | <u>124,417</u>        | <u>119,685</u>         | <u>154,466</u>        | <u>141,788</u>         |
| Market value of listed securities                   | <u>3,513</u>          | <u>4,019</u>           | <u>66,854</u>         | <u>64,374</u>          | <u>70,367</u>         | <u>68,393</u>          |
| Carrying amount analysed for reporting purposes as: |                       |                        |                       |                        |                       |                        |
| Non-current   | 30,049                | 22,103                 | 2,601                 | 3,701                  | 32,650                | 25,804                 |
| Current   | –                     | –                      | 121,816               | 115,984                | 121,816               | 115,984                |
|   | <u>30,049</u>         | <u>22,103</u>          | <u>124,417</u>        | <u>119,685</u>         | <u>154,466</u>        | <u>141,788</u>         |

**12. INVENTORIES**

Included in inventories are finished goods of HK\$2,613,000 (31st December, 2003: HK\$1,500,000) carried at net realisable value.

**13. 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\$118,272,000 (31st December, 2003: HK\$112,143,000) which are included in the Group's debtors, deposits and prepayments is as follows:

|                | <b>30.6.2004</b><br><b>HK\$'000</b> | 31.12.2003<br><b>HK\$'000</b> |
|----------------|-------------------------------------|-------------------------------|
| 0 – 30 days    | <b>62,638</b>                       | 73,254                        |
| 31 – 60 days   | <b>32,742</b>                       | 25,325                        |
| 61 – 90 days   | <b>14,401</b>                       | 8,858                         |
| 91 – 120 days  | <b>4,778</b>                        | 2,854                         |
| 121 – 365 days | <b>3,713</b>                        | 1,852                         |
|                | <u><b>118,272</b></u>               | <u><b>112,143</b></u>         |

**14. SHARE CAPITAL**

|  | <b>Number</b><br><b>of shares</b> | <b>Amount</b><br><b>HK\$'000</b> |
|--|-----------------------------------|----------------------------------|
| Ordinary shares of HK\$0.05 each           |                                   |                                  |
| Authorised:                                |                                   |                                  |
| At 30th June, 2004 and 31st December, 2003 | <u>700,000,000</u>                | <u>35,000</u>                    |
| Issued and fully paid:                     |                                   |                                  |
| At 30th June, 2004 and 31st December, 2003 | <u>445,500,000</u>                | <u>22,275</u>                    |

**15. DEFERRED TAXATION LIABILITIES**

|   | <b>Revaluation of</b><br><b>investment</b><br><b>properties</b><br><b>HK\$'000</b> | <b>Revaluation of</b><br><b>leasehold land</b><br><b>and buildings</b><br><b>HK\$'000</b> | <b>Accumulated</b><br><b>tax</b><br><b>depreciation</b><br><b>HK\$'000</b> | <b>Total</b><br><b>HK\$'000</b> |
|---|--|---|--|---------------------------------|
| At 1st January, 2003                                  | 1,704  | 2,218   | 1,200  | 5,122                           |
| Effect of change in tax rate                          |  |   |  |                                 |
| – charge to income statement<br>for the period        | –  | –   | 113  | 113                             |
| – charge to property revaluation<br>reserve           | –  | 208   | –  | 208                             |
| At 30th June, 2003                                    | 1,704  | 2,426   | 1,313  | 5,443                           |
| Charge (credit) to income statement<br>for the period | 822  | –   | (163)  | 659                             |
| At 31st December, 2003 and<br>30th June, 2004         | <u>2,526</u>   | <u>2,426</u>  | <u>1,150</u>   | <u>6,102</u>                    |

**16. CREDITORS AND ACCRUED CHARGES**

The aged analysis of the trade creditors of HK\$12,762,000 (31st December, 2003: HK\$25,071,000) which are included in the Group's creditors and accrued charges is as follows:

|               | <b>30.6.2004</b><br><b>HK\$'000</b> | 31.12.2003<br><b>HK\$'000</b> |
|---------------|-------------------------------------|-------------------------------|
| 0 – 30 days   | <b>9,543</b>                        | 23,944                        |
| 31 – 60 days  | <b>1,934</b>                        | 934                           |
| 61 – 90 days  | <b>1,277</b>                        | 131                           |
| 91 – 120 days | <b>8</b>                            | 62                            |
|               | <u><b>12,762</b></u>                | <u><b>25,071</b></u>          |

**17. BANK BORROWINGS**

|   | <b>30.6.2004</b><br><i>HK\$'000</i> | 31.12.2003<br><i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------|
| The bank borrowings, which are all unsecured and due within one year, comprise: |                                     |                               |
| Bank overdrafts   | -                                   | 113                           |
| Bank loans  | <b>10,780</b>                       | 10,816                        |
| Trust receipt   | <b>266,960</b>                      | 229,043                       |
|   | <u><b>277,740</b></u>               | <u>239,972</u>                |

**18. CAPITAL COMMITMENTS**

|  | <b>30.6.2004</b><br><i>HK\$'000</i> | 31.12.2003<br><i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements | <u><b>151</b></u>                   | <u>151</u>                    |

**19. PLEDGE OF ASSETS**

At 30th June, 2004 certain leasehold properties with carrying values of HK\$7,474,000 (31st December, 2003: HK\$7,498,000) were pledged to banks to secure banking facilities granted to the Group.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**OPERATION REVIEW**

**Trading Division**

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

|  | Turnover         |          | Segment Result   |          |
|--|------------------|----------|------------------|----------|
|  | Six months ended |          | Six months ended |          |
|  | 2004             | 2003     | 2004             | 2003     |
|  | HK\$'000         | HK\$'000 | HK\$'000         | HK\$'000 |
| Electroplating Materials and Chemicals | <b>782,969</b>   | 466,153  | <b>17,195</b>    | 13,579   |
| Paint and Coating Chemicals            | <b>53,716</b>    | 44,897   | <b>2,768</b>     | 1,613    |
| Stainless Steel                        | <b>23,842</b>    | 17,103   | <b>4,173</b>     | 1,669    |
| Total                                  | <b>860,527</b>   | 528,153  | <b>24,136</b>    | 16,861   |

*Electroplating Materials and Chemicals*

We had an overall robust sales turnover during the first half year of 2004 driven by solid metal prices and strong demand in Asian region. Besides China, which is the main driving force for Asian demand, we also gained new orders stemming from South Korea and Singaporean region. In comparison with terrible shrinking demand last year due to spread of SARS virus epidemic, total revenue rose by 68% for the first six month of 2004. However, we suffered some losses in the second quarter due to sharp fall in all metal prices in April caused by concerns in strong US dollars and slow sales in China after the adoption of tighter credit and investment controls by the Chinese government. Total segment profits only gained by 27% in the first six months of 2004 when compared that of same period last year.

Precious metal business performed moderately during the period under review. There is almost no growth in Hong Kong region but sales of Singaporean region performed better because fewer competitors stayed in that region. Demand from imitation jewelry industry continued to grow in China. Profit margin remained thin mainly because of intensive competition from Chinese competitors.

Demand of base metal also grew stronger in the beginning of the year due to rising demand from various industries. From April onwards, demand started to slow down suffering from tightening credits imposed by Chinese government as well as shortage of power supply in most factories in China.

As at 30th June, 2004, our total inventory level increased by 14% when compared that as at 31st December, 2003, partly because of the rise in metal prices and partly because delay shipments from some suppliers prompted us to accumulate higher safety stock level.

*Paint and Coating Chemicals*

Most raw materials in the first half year of 2004 recorded drastic increases driven by sustainable high oil price. Strong growth in auto industry developed in China boosted demand in paint and coating chemicals. Shrinking supply, however, due to global supply sources restructuring and expanding demand stemming from improving U.S. and European business environment drew out part of materials supply to China market and such situation will persist in the second half of year. Further rally in oil price, together with severe shortage supply in electricity in China and tightening credit control imposed by the Chinese government, has slowed down purchasing power of some local factories despite solid demand growth in China. In this year, we continue to develop new demand from different kinds of applications area for our products, such as textile and personal care during the period under review.

*Stainless Steel*

Market demand in stainless steel remained robust throughout the first six months of 2004. Global tight supply of stainless steel continued and drove up all selling prices. Many stainless-steel suppliers have limited customers' purchase orders or delay shipments. Although some customers shift their purchases to some lower-graded materials as they could not afford the price hike, stable supply is the crucial requirement to most customers. To ensure stable supply to customers, we have increased our inventory level and also added some new product lines to enlarge our customer base. In the coming months, tight supply of raw materials for making stainless steel endures. It is expected that stainless steel price will remain firm in the next half year.

### Property Investment Division

Total rental income reached to HK\$7.0 million for the first six months of 2004, representing a slightly increase of 3.8%.

Average occupancy rate for the office properties in Hong Kong offices in the first six months of 2004 was 91.9%, an increase of 17.8% from the same period last year. Average monthly rental per square foot fell by 16.5% over the figure last year. Supported by the improving business confidence in the beginning of 2004 and attractive low rents and convenient location, all available spaces have been rented out by the period ended.

Average rents for Grade A offices in Shanghai rose 10% in the first half year of 2004 when compared the rent in the same period of 2003. Increasing demand from multinational companies led to a decrease in availability rate of Grade A office spaces. The newly established local or foreign companies with strong financial background were also willing to afford higher rents for Grade A offices. Average occupancy rate during the period under review was 90.7% compared with 94.4% in the same period last year. The fall of average occupancy rate was because it included the transition period of new and old tenancies. At the period end, only about 5% office spaces were available for lease.

Despite the Chinese central government's attempt to cool down the economy, interests among investors or homebuyers in residential property market remained positive. Demand of leasing spaces for accommodation held firm but rental growth stayed flat. Average occupancy rate during the first six months of 2004 was 95%, climbing up from 80% during the same period a year earlier. As at 30th June, 2004, occupancy rate was reported at 96%.

### Securities Investment Division

An analysis of the portfolio, current and non-current, by type of securities as at 30th June, 2004 is as below:

|                       | Market Value of Investment | Percentage of Total |
|-----------------------|----------------------------|---------------------|
| Equities              | HK\$56.9 million           | 30.3%               |
| Bonds                 | HK\$46.9 million           | 25.0%               |
| Unit Fund             | HK\$51.7 million           | 27.6%               |
| Long Term Deposits    | HK\$31.2 million           | 16.7%               |
| Equity-Linked Deposit | HK\$0.8 million            | 0.4%                |

As at 30th June, 2004, 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.

An analysis of the portfolio by currency denomination as at 30th June, 2004 is listed below:

| US dollar | HK dollar | Euro | JP Yen | SGP Dollar | RMB  | AUD Dollar |
|-----------|-----------|------|--------|------------|------|------------|
| 70.1%     | 19.0%     | 1.1% | 5.7%   | 0.8%       | 1.4% | 1.9%       |

In the beginning of 2004, it was noticeable that worldwide economies grew strongly and the most sparkling star shined in China. Better-than-expected economic figures raised investors' concern on inflation pressure. Rising demand for certain commodities like steel and constricted supplies, such as energy, have led higher prices of most products. As a result, the U.S. Federal Reserves has raised its benchmark interest rate by 25 basis points in June meeting, taking a first step to reverse the stimulating monetary policy into a tightening one. Other central banks' policy-makers, such as China, U.K., Australia, etc., also adopted tightening policies to cool down their local economies. Nevertheless, global intensive competition continues undercutting companies' profits that holds back capital investments and inventory build-up. Combining with constant threats of terror and worries of weakening global economies in future caused investors to put money into various form of short-term investment or principal-protected strategies. Markets also reacted responsively with unprecedented volatility throughout the period.

As at 30th June, 2004, we recorded an unrealized loss of HK\$3.6 million. During the period under review, we disposed HK\$42.1 million securities, mainly corporate debt, and gained HK\$0.4 million. Dividend and interest income generated from securities portfolio accounted for HK\$0.5 million and HK\$2.0 million respectively during the period. Our portfolio has invested on principal-protected products, high quality equities and low-risks, high rating corporate debts to minimize risk exposure from market uncertainties. This strategy will continue in the coming second half year.



## EMPLOYEES

The Group employed a staff of 87 at the end of 30th June, 2004 of whom 62 worked in Hong Kong, 15 worked in Mainland China and 10 worked in overseas offices. To ensure the pay levels of the employees are competitive in the market, total remuneration to all staff for the first six months of 2004 rose slightly by 3.7% over the cost in the same period last year to HK\$10.3 million. For the first six months of 2004, there is no significant change relating to remuneration and bonus policy as well as training scheme.

## FINANCIAL RESOURCES AND LIQUIDITY

The Group's total shareholders' fund slightly rose 0.9% from HK\$606.8 million as at 31st December, 2003 to HK\$612.4 million as at 30th June, 2004.

Cash and cash deposits totaled at HK\$232.1 million as at 30th June, 2004 whereas HK\$153.5 million and HK\$245.9 million was recorded as at 30th June, 2003 and 31st December, 2003 respectively. For the six months period ended 30th June, 2004, major cash outflow accounted HK\$14.0 million of inventory, HK\$16.4 million of prepayment to suppliers and general debtors as well as HK\$17.7 million of payment due to suppliers.

An analysis of cash and bank deposit by currencies as at 30th June, 2004 is set out below:

| HK<br>Dollar | US<br>Dollar | Euro | SGP<br>Dollar | Reminbi | NT<br>Dollar | Others |
|--------------|--------------|------|---------------|---------|--------------|--------|
| 14.6%        | 77.0%        | 3.7% | 0.6%          | 0.8%    | 2.1%         | 1.2%   |

## DEBT STRUCTURE

Total bank borrowings jumped from HK\$240.0 million as at 31st December, 2003 to HK\$277.7 million as at 30th June, 2004. Net borrowings of HK\$45.6 million were posted as at 30th June, 2004. Gearing ratio, representing total bank borrowings divided by shareholders' fund, was 0.45 as of 30th June, 2004. All bank borrowing were in forms of trust receipt and money market loans at the period ended.

Currency distribution on Bank Borrowings as at 30th June, 2004:

|                       | HK\$'000       |               |
|-----------------------|----------------|---------------|
| Hong Kong Dollars     | 206,248        | 74.3%         |
| United States Dollars | 56,794         | 20.4%         |
| Japanese Yen          | 14,698         | 5.3%          |
|                       | <u>277,740</u> | <u>100.0%</u> |

All borrowings were based on floating rate and matured within one year. Average interest rate charged on borrowings during the review period was 1.33% per annum. Interest expense for the first six months ended 30th June, 2004 was HK\$1.7 million when compared with HK\$2.1 million for the six months ended 30th June, 2003.

## FOREIGN CURRENCY RISK

During the first six months ended 30th June, 2004, the Group's transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, British Sterling, Reminbi, Australian Dollars, Singapore Dollars and New Taiwanese Dollars. The Group used forward exchange contracts to hedge its foreign currency exposure in trading activities when considered appropriate. There was no forward foreign contract outstanding as at 30th June, 2004. Short-term borrowings denominated in foreign currencies other than United States Dollars were used to finance assets purchased in the same currencies.

## 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, 2004.

## DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2004, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinances ("SFO Ordinances"), or as otherwise notified to

the Company and The Stock Exchange of Hong Kong Limited pursuant to the Mode Code for Securities Transactions by the Directors of Listed Companies, were as follows:

### Long Positions

(a) *Ordinary shares of HK\$0.05 each in the Company*

| Name of director       | Capacity   | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|------------------------|--|---------------------------------------|---|
| Leung Shu Wing         | Beneficial owner   | 184,691,075                           | 41.457%   |
| Yuen Tin Fan, Francis  | Held by controlled corporation (Note 1)<br>Founder of discretionary trust (Note 2) | 26,984,000<br>74,770,000              | 6.057%<br>16.783%                                     |
|                        |  | 101,754,000                           | 22.840%   |
| Leung Miu King         | Beneficial owner   | 20,634,000                            | 4.632%  |
| Kwan Hing Hin, Stephen | Beneficial owner   | 5,000,000                             | 1.122%  |
| Wong Chi King          | Beneficial owner   | 767,000                               | 0.172%  |
| Wong Choi Ying         | Beneficial owner   | 9,500                                 | 0.002   |
|                        |  | 312,855,575                           | 70.225%   |

Notes:

- 26,984,000 shares in the Company are owned by Tien Fung Hong Group Limited, a company which is 60% owned by Mr. Yuen Tin Fan, Francis.
- 74,770,000 shares in the Company are owned by TF Yuen Trust. Mr. Yuen Tin Fan, Francis is the founder who has set up the TF Yuen Trust.

(b) *Non-voting preferred shares in the Company's subsidiaries*

| Name of subsidiary                    | Name of director                         | Capacity                             | Number of non-voting preferred shares | Percentage of the non-voting preferred share capital of the company |
|---------------------------------------|--|--------------------------------------|---------------------------------------|---|
| Kee Shing Hardware Supplies Limited   | Wong Chi Kin                             | Beneficial Owner                     | 400,000                               | 100%  |
| Kee Shing Industrial Products Limited | Leung Shu Wing<br>Kwan Hing Hin, Stephen | Beneficial Owner<br>Beneficial Owner | 7,000<br>2,000                        | 70%<br>20%  |
| Sam Wing International Limited        | Leung Shu Wing                           | Beneficial Owner                     | 19,440                                | 90%   |

Saves as disclosed above, at 30th June, 2004, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its subsidiaries or associated corporation as defined in the SFO Ordinances.

### SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain directors disclosed under the heading "Directors' Interest in Shares, Underlying Shares and Debentures" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO Ordinance discloses no other person as having a notifiable interest or a short position in the issued share capital of the Company as at 30th June, 2004.

### CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th June, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

By Order of the Board

**LEUNG SHU WING**

Chairman

Hong Kong, 15th September, 2004

**INDEPENDENT REVIEW REPORT  
TO THE BOARD OF DIRECTORS OF KEE SHING (HOLDINGS) LIMITED**

**奇盛(集團)有限公司**

*(incorporated in Hong Kong with limited liability)*

**INTRODUCTION**

We have been instructed by the Company to review the interim financial report set out on pages 3 to 11.

**DIRECTORS' RESPONSIBILITIES**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

**REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

15th September, 2004