



2006

INTERIM REPORT

KSH

Kee Shing (Holdings) Limited

奇盛(集團)有限公司

Incorporated in Hong Kong with limited liability

Stock Code : 174

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Leung Shu Wing – *Chairman*

Leung Miu King, Marina – *Managing Director*

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

AUDIT COMMITTEE

Wong Kong Chi – *Chairman*

Lai Chung Wing, Robert

Chan Wing Lee

Wong Choi Ying – *Secretary*

REMUNERATION COMMITTEE

Wong Kong Chi – *Chairman*

Lai Chung Wing, Robert

Chan Wing Lee

Wong Chi Kin

Wong Choi Ying – *Secretary*

COMPANY SECRETARY

Wong Choi Ying

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking

Corporation Limited

SHARE REGISTRARS

Standard Registrars Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

REGISTERED OFFICE

3rd Floor, Kee Shing Centre

74-76 Kimberley Road

Tsimshatsui, Kowloon, Hong Kong

FINANCIAL HIGHLIGHT

| | Six months ended 30th June | | Year ended 31st December |
|---|---------------------------------|---|---|
| | 2006 HK\$'000 (Unaudited) | 2005 HK\$'000 (Restated) (Unaudited) | 2005 HK\$'000 (Restated) (Audited) |
| Turnover | 920,116 | 943,972 | 1,964,169 |
| Profit before taxation | 33,746 | 42,795 | 83,655 |
| Profit Attributable to Company's Shareholders | 28,413 | 36,495 | 70,240 |
| Dividend | 44,550 | 44,550 | 89,100 |
| Total Borrowings | 343,052 | 271,784 | 272,928 |
| Shareholders' Fund of equity holders of the parent | 574,839 | 604,343 | 593,399 |
| Net Cash Inflow/(Outflow) before Financing | (21,901) | 13,522 | 65,735 |
| Net Cash Inflow/(Outflow) in Financing | 18,035 | (75,169) | (129,526) |
| Capital Expenditure | 171 | 1,860 | 2,179 |
| Earnings Per share (basic – HK cents) ¹ | 6.1¢ | 7.9¢ | 15.8¢ |
| Dividend Per Share | 10.0¢ | 10.0¢ | 20.0¢ |
| Equity attributable to Company's Shareholders per share | HK\$1.29 | HK\$1.36 | HK\$1.33 |
| Interest Cover (times) ² | 6.58x | 12.71x | 9.49x |
| Dividend Cover (times) ³ | 0.61x | 0.79x | 0.79x |

Note:

1. Earning per shares is calculated by dividing profit attributable to shareholders by 445,500,000 shares in issue during 30th June, 2006. (30th June, 2005 and 31st December, 2005: 445,500,000 shares)
2. Interest cover is calculated by dividing profit before taxation and finance costs by finance costs.
3. Dividend cover is calculated by dividing Earning Per Share by Dividend Per Share.

CHAIRMAN'S STATEMENT

CONSOLIDATED 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 costs.

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 cent 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. The share register 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 transfers accompanied by the relevant share certificates must be lodged with the Company's share registrars, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 9th October, 2006.

BUSINESS REVIEW

Total turnover on trading business of chemicals and metals for the first six months of 2006 fell by 2.5% to HK\$909.5 million. Primarily due to sharp rise in metal and chemical prices and better control in purchase costs, segment profits for the period under review rose by 33.7% to HK\$33.2 million. Market demand was generally weak after Chinese New Year because most factories reduced their purchases amid high material prices, lacking skilled labor, energy shortage and stringent governmental rules implemented in Mainland China. Weak demand has also caused many suppliers to undercut their selling prices below international prices within China and Taiwan markets. Pressure to costs in receivables and inventory was fueled by slow sales and rising interest rates. Such trend was continuing in the third quarter.

Rental income contributed from property investment increased by 9.1% to HK\$8.4 million. Rental business in Shanghai offices reported satisfactory. Hong Kong office spaces were all rented out during the period under review. In May and June of 2006, the Chinese central government stepped up measures to cool surging property prices by raising interest rates and tightening controls in commercial properties transactions. The new tightening measures were trembled potential buyers and no sale of residential unit was made during the first six months of 2006 while 4 units were sold in the same period last year. It is expected more tightening measures will be released by the central government to slow down excessive lending and investment in China property market.

In the midst of concerns of growing inflationary pressure and potential interest rate hikes from major central banks, global financial markets experienced high volatility within equity and bond markets during the first half year of 2006. Consequently, segment profit in securities investment fell from HK\$2.8 million in the first six months of 2005 to HK\$0.7 million in the same period of 2006. In spite of expectation in global economic slowdown, overall investment climate was positive but risk aversion was picking up among investors.

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 June 30th, 2006.

In accordance with the required standard set out in Model Code for Securities Transaction by Directors of Listed Issue ("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 the 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 responsibility 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 Code of Conduct regarding Directors' securities transactions.

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.

LEUNG SHU WING

Chairman

Hong Kong, 20th September, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

| | NOTES | Six months ended 30.6.2006 HK\$'000 (unaudited) | Six months ended 30.6.2005 HK\$'000 (restated) (unaudited) |
|--|-------|---|---|
| Turnover | 4 | 920,116 | 943,972 |
| Other income | 5 | 3,301 | 1,901 |
| Changes in inventories of finished goods | | 32,787 | (9,342) |
| Purchases 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-sales investment | | 585 | – |
| Gain on disposal of investment properties | | – | 1,336 |
| (Loss) gain arising from changes in fair value of investment properties | | (371) | 9,955 |
| Finance costs | 6 | (6,052) | (3,656) |
| Share of profit of associates | | 984 | 3,346 |
| Profit before taxation | | 33,746 | 42,795 |
| Income tax expense | 7 | (5,333) | (6,300) |
| Profit for the period | | <u>28,413</u> | <u>36,495</u> |
| Attributable to: | | | |
| Equity holders of the parent | | 27,258 | 35,384 |
| Minority interests | | 1,155 | 1,111 |
| | | <u>28,413</u> | <u>36,495</u> |
| Dividend | 8 | <u>44,550</u> | <u>44,550</u> |
| Earnings per share – basic | 9 | <u>6.1 HK cents</u> | <u>7.9 HK cents</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2006

| | NOTES | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|--|-------|--------------------------------------|-------------------------------------|
| Non-current Assets | | | |
| Investment properties | 10 | 266,190 | 266,561 |
| Property, plant and equipment | | 32,630 | 33,532 |
| Interests in associates | 11 | 28,445 | 27,676 |
| Available-for-sale investments | 12 | 27,281 | 29,299 |
| | | <u>354,546</u> | <u>357,068</u> |
| Current Assets | | | |
| Inventories | | 178,314 | 145,431 |
| Debtors, deposits and prepayments | 13 | 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> |
| Current Liabilities | | | |
| Creditors and accrued charges | 14 | 39,396 | 38,395 |
| Amounts due to minority shareholders of subsidiaries | | 10,408 | 11,306 |
| Taxation payable | | 6,892 | 3,894 |
| Bank borrowings | 15 | 343,052 | 272,928 |
| | | <u>399,748</u> | <u>326,523</u> |
| Net Current Assets | | <u>251,075</u> | <u>265,737</u> |
| Total Assets Less Current Liabilities | | <u>605,621</u> | <u>622,805</u> |
| Capital and Reserves | | | |
| Share capital | 16 | 22,275 | 22,275 |
| Reserves | | 552,564 | 571,124 |
| Equity attributable to equity holders of the parent | | 574,839 | 593,399 |
| Minority interests | | 22,744 | 21,733 |
| Total Equity | | <u>597,583</u> | <u>615,132</u> |
| Non-current Liabilities | | | |
| Deferred tax liabilities | | 8,038 | 7,673 |
| | | <u>605,621</u> | <u>622,805</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

| | Attributable to equity holders of the Parent | | | | | | | | |
|---|--|---------------------------|--|--|---------------------------------|------------------------------|-------------------|--------------------------------|--------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Property revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total equity HK\$'000 |
| At 1st January, 2005 | | | | | | | | | |
| – as originally stated | 22,275 | 153,728 | 18,226 | – | 1,668 | 418,825 | 614,722 | 19,774 | 634,496 |
| – effect of change in accounting policy | – | – | – | (60) | – | 60 | – | – | – |
| – as restated | 22,275 | 153,728 | 18,226 | (60) | 1,668 | 418,885 | 614,722 | 19,774 | 634,496 |
| Loss on structured bank deposits | – | – | – | (1,773) | – | – | (1,773) | – | (1,773) |
| Exchange difference arising on translation of overseas operations | – | – | – | – | 486 | – | 486 | (294) | 192 |
| Released from winding up of a subsidiary | – | – | – | – | – | – | – | 900 | 900 |
| Share of an associate's movement in reserves | – | – | – | – | 73 | 1 | 74 | – | 74 |
| Net (expense) income recognized in equity | – | – | – | (1,773) | 559 | 1 | (1,213) | 606 | (607) |
| Profit for the period | – | – | – | – | – | 35,384 | 35,384 | 1,111 | 36,495 |
| Total recognised income and expense for the period | – | – | – | (1,773) | 559 | 35,385 | 34,171 | 1,717 | 35,888 |
| Dividends paid | – | – | – | – | – | (44,550) | (44,550) | (280) | (44,830) |
| At 30th June, 2005 | 22,275 | 153,728 | 18,226 | (1,833) | 2,227 | 409,720 | 604,343 | 21,211 | 625,554 |
| Loss on structured bank deposits | – | – | – | (593) | – | – | (593) | – | (593) |
| Exchange difference arising on translation of overseas operations | – | – | – | – | (64) | – | (64) | 93 | 29 |
| Share of an associate's movement in reserves | – | – | – | – | (592) | (1) | (593) | – | (593) |
| Net (expense) income recognised directly in equity | – | – | – | (593) | (656) | (1) | (1,250) | 93 | (1,157) |
| Profit for the period | – | – | – | – | – | 34,856 | 34,856 | 423 | 35,279 |
| Total recognised income and expense for the period | – | – | – | (593) | (656) | 34,855 | 33,606 | 516 | 34,122 |
| Dividends paid | – | – | – | – | – | (44,550) | (44,550) | 6 | (44,544) |
| At 31st December, 2005 | 22,275 | 153,728 | 18,226 | (2,426) | 1,571 | 400,025 | 593,399 | 21,733 | 615,132 |
| Loss on structured bank deposits | – | – | – | (1,433) | – | – | (1,433) | – | (1,433) |
| Exchange difference arising on translation of overseas operations | – | – | – | – | 380 | – | 380 | 445 | 825 |
| Released from winding up of a subsidiary | – | – | – | – | – | – | – | (315) | (315) |
| Share of an associate's movement in reserves | – | – | – | – | (215) | – | (215) | – | (215) |
| Net (expense) income recognised directly in equity | – | – | – | (1,433) | 165 | – | (1,268) | 130 | (1,138) |
| Profit for the period | – | – | – | – | – | 27,258 | 27,258 | 1,155 | 28,413 |
| Total recognised income and expense for the period | – | – | – | (1,433) | 165 | 27,258 | 25,990 | 1,285 | 27,275 |
| Dividends paid | – | – | – | – | – | (44,550) | (44,550) | (274) | (44,824) |
| At 30th June, 2006 | 22,275 | 153,728 | 18,226 | (3,859) | 1,736 | 382,733 | 574,839 | 22,744 | 597,583 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30TH JUNE 2006

| | Six months ended 30.6.2006 HK\$'000 (unaudited) | Six months ended 30.6.2005 HK\$'000 (unaudited) |
|--|---|---|
| Net cash (used in) from operating activities | (24,852) | 29,277 |
| Net cash from (used in) investing activities | 2,951 | (15,755) |
| Financing activities | | |
| Net bank borrowings raised | 70,124 | – |
| Net repayments of bank borrowings | – | (30,346) |
| Dividend paid | (44,550) | (44,550) |
| Other financing activities | (7,539) | (273) |
| Net cash from (used in) financing activities | 18,035 | (75,169) |
| Net decrease in cash and cash equivalents | (3,866) | (61,647) |
| Cash and cash equivalents at beginning of the period | 100,144 | 163,827 |
| Effect of foreign exchange rate changes | 294 | (124) |
| Cash and cash equivalents at end of the period | <u>96,572</u> | <u>102,056</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Short term bank deposits | 14,265 | 42,259 |
| Bank balances and cash | <u>82,307</u> | <u>59,797</u> |
| | <u>96,572</u> | <u>102,056</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

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 Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. 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 or 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\$60,000 has been transferred from the Group's retained earnings to investment revaluation reserve 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).

3. 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 ¹ |
| HKFRS 7 | Financial instruments: Disclosure ¹ |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ² |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 ³ |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives ⁴ |

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st March, 2006.

³ Effective for annual periods beginning on or after 1st May, 2006.

⁴ 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

| | Sales of chemicals and metals HK\$'000 | Property investment HK\$'000 | Security investment HK\$'000 | Other activities HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|------------------------------------|---|------------------------------------|------------------------------------|---------------------------------|--------------------------|--------------------------|
| Turnover | | | | | | |
| External sales | 909,519 | 8,437 | 1,683 | 477 | – | 920,116 |
| Inter-segment sales | – | 640 | – | – | (640) | – |
| Total turnover | 909,519 | 9,077 | 1,683 | 477 | (640) | 920,116 |
| Segment result | 33,224 | 5,874 | 720 | 40 | – | 39,858 |
| Interest income from bank deposits | – | – | – | – | – | 1,663 |
| Unallocated other income | – | – | – | – | – | 1,638 |
| Unallocated corporate expenses | – | – | – | – | – | (4,345) |
| Finance costs | – | – | – | – | – | (6,052) |
| Share of profit of associates | – | – | – | 984 | – | 984 |
| Profit before taxation | | | | | | 33,746 |

For the six months ended 30th June, 2005

| | Sales of chemicals and metals HK\$'000 | Property investment HK\$'000 | Security investment HK\$'000 | Other activities HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|------------------------------------|---|------------------------------------|------------------------------------|---------------------------------|--------------------------|--------------------------|
| Turnover | | | | | | |
| External sales | 933,258 | 7,736 | 2,733 | 245 | – | 943,972 |
| Inter-segment sales | – | 600 | – | – | (600) | – |
| Total turnover | 933,258 | 8,336 | 2,733 | 245 | (600) | 943,972 |
| Segment result | 24,845 | 17,028 | 2,773 | 28 | – | 44,674 |
| Interest income from bank deposits | – | – | – | – | – | 1,582 |
| Unallocated other income | – | – | – | – | – | 319 |
| Unallocated corporate expenses | – | – | – | – | – | (3,470) |
| Finance costs | – | – | – | – | – | (3,656) |
| Share of profit of associates | – | – | – | 3,346 | – | 3,346 |
| Profit before taxation | | | | | | 42,795 |

Inter-segment transactions are charged at prevailing market rates.

5. **OTHER INCOME**

Included in other incomes is interest income from bank deposits of HK\$1,663,000 for the six months ended 30th June, 2006 (six months ended June, 2005: HK\$1,582,000)

6. **FINANCE COSTS**

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

7. **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.

8. **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 10 HK cents (year ended | | |
| 31st December, 2004: 10 HK cents) per ordinary share | 44,550 | 44,550 |

Interim dividend of 4.0 cents per share, amounting to HK\$17,820,000, was approved by the board of directors on 20th September, 2006.

9. **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.

The following table summaries the impact on basis earnings per share as a result of the change in accounting policy shown in note 2 above:

| | Six months ended 30.6.2006 HK cents | Six months ended 30.6.2005 HK cents |
|---|--|--|
| Reported figure before adjustments | 5.8 | 7.5 |
| Adjustment arising from change in accounting policy | 0.3 | 0.4 |
| Restated | <u>6.1</u> | <u>7.9</u> |

10. INVESTMENT PROPERTIES

The fair value of the Group's investment properties at 30th June, 2006 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Ltd., independent qualified professional valuer not connected with the Group. Knight Frank Petty Ltd. is member of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. The revaluation gave rise to a net loss arising from changes in fair value of HK\$371,000 (six months ended 30.6.2005: gain of HK\$9,955,000) which has been charged to the condensed consolidated income statement.

11. INTERESTS IN ASSOCIATES

| | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|--|--------------------------------------|-------------------------------------|
| Cost of investment net of accumulated goodwill and impairment loss in associates | | |
| Listed in Hong Kong | 21,618 | 21,618 |
| Unlisted | 757 | 757 |
| Share of post-acquisition profits and reserves, net of dividends received | 6,070 | 5,301 |
| | <u>28,445</u> | <u>27,676</u> |

The share of tax of associates amounted to HK\$286,000 (six months ended 30.6.2005: HK\$127,000) is included in share of profit of associates disclosed in the condensed consolidated income statement.

12. AVAILABLE-FOR-SALE INVESTMENTS

| | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|----------------------------|--------------------------------------|-------------------------------------|
| Unlisted equity securities | – | 585 |
| Structured bank deposits | 27,281 | 28,714 |
| | <u>27,281</u> | <u>29,299</u> |

As at 31st December, 2005, investment in equity securities that are not measured at fair value amounted to HK\$585,000 as their fair value cannot be measured reliably and accordingly, they continue to be carried at cost less impairment. During the period, those investments have been disposed of at HK\$1,170,000.

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\$165,865,000 (31.12.2005: HK\$143,603,000) which are included in the Group's debtors, deposits and prepayments is as follows:

| | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|----------------|--------------------------------------|-------------------------------------|
| 0 – 30 days | 98,810 | 69,903 |
| 31 – 60 days | 49,647 | 46,194 |
| 61 – 90 days | 11,146 | 19,960 |
| 91 – 120 days | 4,470 | 6,167 |
| 121 – 365 days | 1,792 | 1,379 |
| | <u>165,865</u> | <u>143,603</u> |

14. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$19,985,000 (31.12.2005: HK\$18,778,000) which are included in the Group's creditors and accrued charges is at follows:

| | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|--------------|--------------------------------------|-------------------------------------|
| 0 – 30 days | 19,448 | 17,376 |
| 31 – 60 days | 431 | 1,267 |
| 61 – 90 days | 32 | – |
| Over 90 days | 74 | 135 |
| | <u>19,985</u> | <u>18,778</u> |

15. BANK BORROWINGS

| | 30.6.2006 HK\$'000 (unaudited) | 31.12.2005 HK\$'000 (audited) |
|--|--------------------------------------|-------------------------------------|
|--|--------------------------------------|-------------------------------------|

The bank borrowings, which are due within one year, comprise:

| | | |
|--------------------------------|----------------|----------------|
| Bank loans | | |
| – secured | 1,794 | 5,801 |
| – unsecured | 49,269 | 24,297 |
| Trust receipt and import loans | 291,989 | 242,830 |
| | <u>343,052</u> | <u>272,928</u> |

During the period, the Group raised new unsecured bank loans of HK\$30 million and trust receipt and import loans of HK\$50 million. The new bank borrowings bear interest at floating interest rates, with average interest rate for the period of 5.2% per annum and are repayable within one year. The proceeds were used to finance the Group's trading operations.

16. SHARE CAPITAL

| | Number of shares | Amount HK\$'000 |
|--|---------------------|--------------------|
| Ordinary shares of HK\$0.05 each | | |
| Authorised: | | |
| At 30th June, 2006 and 31st December, 2005 | <u>700,000,000</u> | <u>35,000</u> |
| Issued and fully paid: | | |
| At 30th June, 2006 and 31st December, 2005 | <u>445,500,000</u> | <u>22,275</u> |

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 Six months ended | | Segment Results Six months ended | |
|---|------------------------------|-----------------------|-------------------------------------|-----------------------|
| | 30.6.2006 HK\$'000 | 30.6.2005 HK\$'000 | 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. Some factories also seek for other substitutes to replace high-priced materials.

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. Unlike previous years, stockpiling situation of electroplating copper in China region eased during the period under review but profitability remained low.

As at 30th June, 2006, total inventory level was HK\$ 167.9 million, representing an increase of 29.5% when compared with HK\$ 129.7 million as at 31st December, 2005. 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. In view of tough business environment, the Group has put effort to regularly review and to monitor purchase strategies and receivables control during the period under review.

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 June 30th, 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. A surplus of HK\$2.1 million was recognized on revaluation of Hong Kong properties for the 6 months ended June 30th, 2006.

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. The market value of our Shanghai office properties as at June 30th, 2006 stayed the same as compared with their valuation as at December 31st, 2005.

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 June 30th, 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. As at June 30th, 2006, the Group recorded a loss of HK\$2.4 million on revaluation of Shanghai residential properties.

Securities Investment Division

An analysis of the securities portfolio, current and non-current, by type of securities as at 30th June, 2006 is as below:

Market Value as at (in HK\$ million)

| | 30/06/2006 | 31/12/2005 | Diff % |
|---------------------------------|----------------|----------------|--------------|
| Investment Held for Trading: | 173,583 | 175,783 | -1.3% |
| Available-for-Sales Investment: | 0 | 585 | - |
| Structured Bank Deposits: | 27,281 | 28,714 | -5.0% |
| | <u>200,864</u> | <u>205,082</u> | <u>-2.1%</u> |

Distribution of Securities in Investment held for trading:

| | | | |
|------------------------|---------------|---------------|---------------|
| Equities – Hong Kong | 30,526 | 33,195 | -8.0% |
| Equities – Overseas | 26,245 | 25,804 | +1.7% |
| Debt – Quoted/Listed | 44,938 | 67,607 | -33.5% |
| Managed Funds – Quoted | <u>71,874</u> | <u>49,177</u> | <u>+46.2%</u> |

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.

An analysis of the portfolio by currency denomination as at 30th June 2006 is listed below:

| US dollar | HK dollar | JP Yen | Euro | AUD Dollar | SGP Dollar |
|-----------|-----------|--------|------|------------|------------|
| 70.2% | 15.2% | 8.4% | 2.5% | 2.4% | 1.2% |

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 June 30th, 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. Yet, major economic fundamentals around the globe have not changed. 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 June 30th, 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 labor 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. Equity attributable to equity holders of the parent company as at June 30th, 2006 dropped by 3.1% to HK\$ 574.8 million as the Group distributed HK\$ 44.5 million of final dividends in respect of the year 2005 in May 2006. 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.

Due to the fall in cash deposits, working capital as at June 30th, 2006 decreased to HK\$ 251.1 million when compared with HK\$ 265.7 million as at 31st December, 2005. Inventory as at June 30th, 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 June 30th, 2006, representing a rise of HK\$ 22.2 million when compared with HK\$143.6 million as at 31st December, 2005. Trade debtor turnover cycle reported at 33 days as at June 30th, 2006 when compared with 27 days 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.

The Group negative net cash as at June 30th, 2006 widened to HK\$ 246.5 million (as at 31st December, 2005: negative HK\$ 172.8 million). The expanded negative net cash was primarily due to cash outflow from accumulated dividend payments in the past two years. Capital expenditure only incurred HK\$171,000 during the first six months of 2006.

An analysis of cash and bank deposit by currencies as at 30th June 2006 is set out below:

| US Dollar | HK Dollar | Renminbi | NT Dollar | SGP Dollar | Euro | Others |
|--------------|--------------|----------|--------------|---------------|------|--------|
| 46.8% | 34.1% | 12.5% | 4.9% | 0.8% | 0.6% | 0.3% |

DEBT STRUCTURE

Total bank borrowings as at June 30th, 2006 was HK\$ 343.1 million (as at 31st December, 2005: HK\$ 272.9 million). As at June 30th, 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 June 30th, 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.

Currency distribution on Bank Borrowings as at 30th June 2006:

| | HK\$'000 | |
|-----------------------|----------------|---------------|
| Hong Kong Dollars | 294,190 | 85.8% |
| United States Dollars | 32,799 | 9.5% |
| Singapore Dollars | 578 | 0.2% |
| Japanese Yen | 15,485 | 4.5% |
| | <u>343,052</u> | <u>100.0%</u> |

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. Average lending tenor for trust receipt in financing trading facilities was about 52 days during the period under review, 4 days shorter than 56 days in fiscal year of 2005. Money market bank loans were either used to finance additional stocks held or assets purchased in the same foreign currencies. Average interest rate charged to trust receipt borrowings was 5.26% in first six months of 2006 when compared with 1.88% in the same period of 2005. Average interest rate of total bank borrowings was charged at 5.11% in first six months of 2006 whereas 2.94% was charged in the same period of 2005. 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, Renminbi, 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 June 30th, 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.

OTHER CORPORATE INFORMATION

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.

DIRECTORS' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2006, the interests of the directors of the Company 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 | Percentage of Number of issued ordinary shares held | 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) | 26,984,000 | 6.057% |
| | Founder of discretionary trust (Note 2) | 74,770,000 | 16.783% |
| | | <u>101,754,000</u> | <u>22.840%</u> |
| Leung Miu King | Beneficial owner | 21,050,000 | 4.725% |
| Wong Chi Kin | Beneficial owner | 767,000 | 0.172% |
| Wong Choi Ying | Beneficial owner | <u>9,500</u> | <u>0.002%</u> |
| | | <u><u>308,271,575</u></u> | <u><u>69.197%</u></u> |

Note:

- 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 Industrial Limited | Leung Shu Wing | Beneficial Owner | 7,000 | 70% |
| Sam Wing International Limited | Leung Shu Wing | Beneficial Owner | 19,440 | 90% |

Save as disclosed above, at 30th June 2006, 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.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company and had exercised any such right during the period under review.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

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, 2006.

By Order of the Board
LEUNG SHU WING
Chairman

Hong Kong, 20th September, 2006



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 5 to 13.

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 Hong Kong Accounting Standard 34 "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 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's 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, 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20th September, 2006