

Annual Report

05 年報

KSH

Kee Shing (Holdings) Limited
奇盛（集團）有限公司

(Incorporated in Hong Kong with limited liability)

(於香港註冊成立之有限公司)

Stock Code : 174

股份代號 : 174

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BOARD OF DIRECTORS

Executive Directors

Leung Shu Wing – *Chairman*
Leung Miu King – *Managing Director*
Wong Chi Kin
Wong Choi Ying

Non-executive Directors

Yuen Tin Fan, Francis

Independent Non-executive Directors

Wong Kong Chi
Lai Chung Wing, Robert
Chan Wing Lee

AUDIT COMMITTEE

Wong Kong Chi – *Chairman*
Chan Wing Lee
Lai Chung Wing, Robert

REMUNERATION COMMITTEE

Wong Kong Chi – *Chairman* (Appointed on 10th August, 2005)
Chan Wing Lee (Appointed on 10th August, 2005)
Lai Chung Wing, Robert (Appointed on 10th August, 2005)
Wong Chi Kin (Appointed on 10th August, 2005)

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 AND PRINCIPAL PLACE OF BUSINESS

3rd Floor, Kee Shing Centre
74-76 Kimberley Road
Tsimshatsui, Kowloon

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	Change
INCOME STATEMENTS			
Turnover	1,964,169	1,770,634	+10.9%
Profit before Taxation	81,289	61,971	+31.2%
Profit Attributable to Shareholders	67,874	51,299	+32.3%
Dividends	89,100	55,688	+60.0%
BALANCE SHEETS			
Total Assets	949,328	987,762	-3.9%
Total Borrowings	272,928	302,130	-9.7%
Shareholders' Funds of equity holders of the parent	593,399	610,417	-2.8%
CASH FLOW			
Cash Generated from (Used in)			
Operating Activities	59,784	(52,301)	-
Working Capital	265,737	274,236	-3.1%
Capital Expenditure	2,179	3,407	-36.0%
Earning Per Share	15.24¢	11.51¢	+32.4%
Dividend Per Share	20.0¢	12.50¢	+60.0%
Shareholders' Fund Per Share	1.33	1.37	-2.9%
Interest Cover	9.25X	16.29X	n.a.
Dividend Cover	0.76X	0.92X	n.a.

Note:

- Earning per share is calculated by dividing profit attributable to equity holders of the parent by 445,500,000 shares in issue during 2005 (2004: 445,500,000 shares)
- Interest Cover is calculated by dividing profit before tax and interest charges by interest charges.
- Dividend Cover is calculated by dividing Earning Per Share by Dividend Per Share.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December,

	1996	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>1,559,027</u>	<u>2,096,755</u>	<u>1,826,177</u>	<u>1,223,055</u>	<u>1,053,704</u>	<u>860,920</u>
PROFIT BEFORE TAXATION	53,121	31,027	82,050	85,669	48,208	36,524
TAXATION	<u>(5,446)</u>	<u>(8,447)</u>	<u>(7,540)</u>	<u>(6,810)</u>	<u>(2,946)</u>	<u>(4,640)</u>
PROFIT BEFORE MINORITY INTERESTS	<u>47,675</u>	<u>22,580</u>	<u>74,510</u>	<u>78,859</u>	<u>45,262</u>	<u>31,884</u>

CONSOLIDATED BALANCE SHEET

As at 31st December,

	1996	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	716,225	760,661	785,566	800,560	795,298	796,002
TOTAL LIABILITIES	<u>(213,686)</u>	<u>(273,912)</u>	<u>(252,355)</u>	<u>(220,520)</u>	<u>(197,432)</u>	<u>(188,002)</u>
	<u>502,539</u>	<u>486,749</u>	<u>533,211</u>	<u>580,040</u>	<u>597,866</u>	<u>608,000</u>
EQUITY ATTRIBUTABLE TO:						
EQUITY HOLDERS OF						
THE PARENT	481,524	467,162	512,001	563,314	581,166	592,737
MINORITY INTERESTS	<u>21,015</u>	<u>19,587</u>	<u>21,210</u>	<u>16,726</u>	<u>16,700</u>	<u>15,263</u>
	<u>502,539</u>	<u>486,749</u>	<u>533,211</u>	<u>580,040</u>	<u>597,866</u>	<u>608,000</u>

Notes:

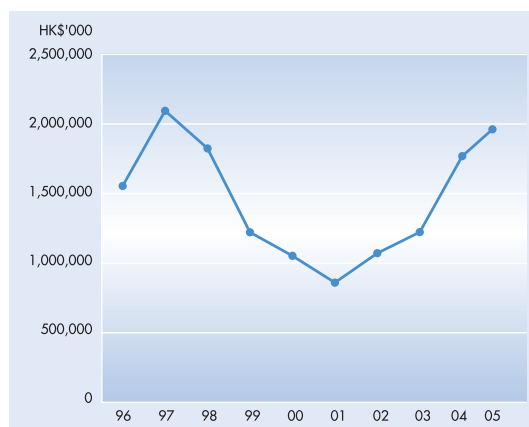
- 1) The above financial summary prior to 1997 has not been adjusted to take into account the effect on the adoption of SSAP 24 "Accounting for investments in securities" issued by the HKICPA as the directors considered that it is not practicable to do so.
- 2) The above financial summary prior to 2002 has not been adjusted to take into account the effect on the adoption of SSAP 12 (Revised) "Income taxes" issued by HKICPA as the directors considered that it is not practicable to do so.
- 3) The above financial summary prior to 2003 has not been adjusted to take into account the effect on the adoption of new HKFRSs that are effective for accounting period beginning on or after 1st January, 2005.

KEY DATA

	1996	1997	1998	1999	2000	2001
Interest cover (times)	7.97	5.04	9.61	13.70	4.83	7.21
Dividends per share (cents)	4.00	4.00	6.00	6.50	5.00	2.50
Earnings per share (cents)	9.80	4.50	15.60	17.50	9.80	6.90
Net assets per share (HK\$)	1.08	1.05	1.15	1.26	1.30	1.33
Gearing	0.20	0.27	0.35	0.25	0.25	0.23

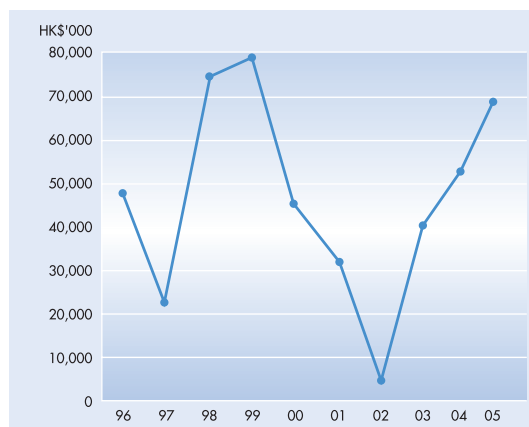
2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
<u>1,072,821</u>	<u>1,224,230</u>	<u>1,770,634</u>	<u>1,964,169</u>
8,527	46,300	61,971	81,289
<u>(3,884)</u>	<u>(6,029)</u>	<u>(9,300)</u>	<u>(11,881)</u>
<u>4,643</u>	<u>40,271</u>	<u>52,671</u>	<u>69,408</u>

Turnover



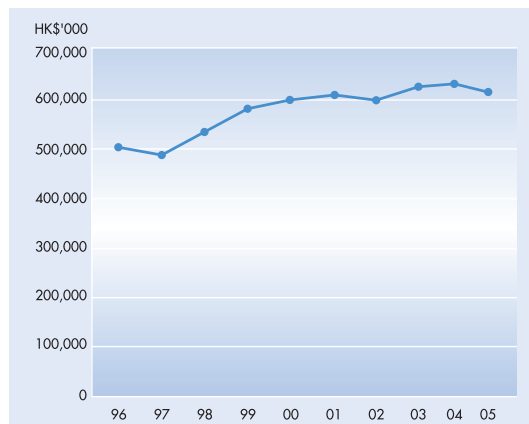
2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000
<u>826,708</u>	<u>934,586</u>	<u>987,762</u>	<u>949,328</u>
<u>(229,503)</u>	<u>(310,219)</u>	<u>(357,571)</u>	<u>(334,196)</u>
<u>597,205</u>	<u>624,367</u>	<u>630,191</u>	<u>615,132</u>
581,134	606,775	610,417	593,399
<u>16,071</u>	<u>17,592</u>	<u>19,774</u>	<u>21,733</u>
<u>597,205</u>	<u>624,367</u>	<u>630,191</u>	<u>615,132</u>

Net Profit



2002	2003	2004	2005
2.95	13.17	16.29	9.25
2.50	3.00	12.50	20.00
0.93	8.69	11.51	15.24
1.30	1.36	1.37	1.33
0.31	0.40	0.49	0.46

Equity



The attributable profit of the Kee Shing Group in the fiscal year 2005 was HK\$67.9 million, representing a rise of 32.3% on the restated figures for the year ended 31st December, 2004. The attributable profit, which reflects the adoption of new Hong Kong Financial Reporting Standards effective from 1st January, 2005, includes the adjustments for the impact of adoption of Hong Kong Financial Reporting Standard 3, Hong Kong Accounting Standards 40, 17, 32 & 39 and Interpretation 21 on business combinations, investment properties, leases, financial instruments and income taxes respectively. An increase of HK\$6.3 million in profit for the year was recorded due to the adoption.

Interim dividend of 10.0 Hong Kong cents per ordinary share was declared on 21st September, 2005. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board of Directors recommended a final dividend for 2005 of 10.0 Hong Kong cents per ordinary share (2004: 10.0 Hong Kong cents per ordinary share) payable on or before 21st June, 2006 to shareholders whose names appear on the register of members of the Company as 25th May, 2006.

BUSINESS REVIEW

The strength of commodity prices due to tight supply but strong demand across Asian region improved the overall profitability in trading segment. Toward the end of 2005, the tightness situation was intensified in electroplating business unit and escalated the profit margin. Sales from South East Asian region also contributed higher return to the Group due to their robust economic expansion. Revenue generated from trading segment grew by 11.0% annually to HK\$1,943.5 million and operation profit improved to HK\$65.9 million, a rise of 25.8% over HK\$52.4 million recorded last year. Throughout the year, overall market was mainly directed by the inconsistent demand driven by the pace of de-stocking effect in the China market. Cost pressures on financing inventory and account receivable considerably accelerated as the interest rate in Hong Kong and the U.S. continued to rise during the whole year. Prudent and vigilant control over these particular risk areas was vital to achieving better cash flow and competitive advantages within the industries.

Property segment contributed HK\$23.3 million in profit during the year, including a gain of revaluation of investment properties as at 31st December, 2005 amounting to HK\$9.96 million. Rental growth in Shanghai offices uplifted total rental income by 9.1% over that in 2004. Occupation rate of Shanghai offices attained almost 100% but that of the Shanghai residential properties fell almost 10% over the course of the year. The drop of occupation rate in residential properties was the result of pressure generated from abundance supply of investor-owned properties after the control measures implemented by the Shanghai government aiming at cooling down the properties market since the second quarter of 2005. In total, the Group only managed to sell 4 residential units in 2005 with a gain of HK\$ 1.3 million.

The management has been cautious with the Group's securities portfolio to cope with vigorous changes in global financial markets. During 2005, the management has constantly reviewed, monitored and reallocated the assets and risks within the portfolio. After adoption of Hong Kong Accounting Standards 32 and 39, the Group recorded a segment profit of HK\$8.1 million when compared with HK\$3.5 million in 2004.

CORPORATE GOVERNANCE

The Group is committed to adopt the standards set on the governance requirements and best practices introduced by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This adoption is not simply to adhere with the mandatory system but to safeguard the interests of shareholders and stakeholders so as to minimize their detriments.

During 2005, the Board has adopted governance documents to achieve high standard of integrity. The documents include:

- matters specifically reserved for the Board's decision-making;
- defined roles and responsibilities of the Chairman and the Chief Executive Officer/Managing Director;
- procedures for the directors to seek independent professional advices; and
- procedures of induction programme for newly appointed directors to the Board.

The Board also set up a Remuneration Committee with defined terms of reference to determine total remuneration granted to executive directors and to approve the remuneration of officers in the Group's senior management team. The Group also revised the terms of reference of the Audit Committee to strengthen the effectiveness of the Group's internal control system and risk management.

A summary of the Group's compliances has been set out in the Corporate Governance Report on page 12 to page 16 in this Annual Report.

OUTLOOK

Global economic expansion has slowed down but demand remains firm across Hong Kong, China and other South Asian markets. Commodity prices may ease from their highs due to slower demand growth and new supply. However, we expect that prices will buoy at high level as economic growth in China continue to support the major commodity markets. The pace of de-stocking effect in China market is expected to influence the import volume and pricing strategies throughout 2006. Rental market in Shanghai residential properties has showed a sign of rebound in the first quarter of 2006 while rental in Shanghai office grows further. Ongoing review and restructuring of the Group's securities portfolio will be performed to ensure a reasonable return. Increasing pressure on cost from financing and operation is expected to persist. The Group's management team will all the time review, monitor and control the cost structures for pursuing better performance of 2006.

I would like to take this opportunity to thank all staff across the Group on their hard work and commitment during the year. Their outstanding performance has been recognized and highly praised by the Board.

LEUNG SHU WING

Chairman

Hong Kong, 12th April, 2006

OPERATION REVIEW

Trading Division

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

For the Year ended:	Turnover		Segment Results	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Electroplating Materials and Chemicals	1,759,158	1,586,352	52,156	38,554
Paint and Coating Chemicals	124,406	113,937	6,271	5,725
Stainless Steel	59,930	50,757	7,436	8,146
Total	1,943,494	1,751,046	65,863	52,425

Electroplating Materials and Chemicals

Strong commodity prices of the metals were the main drivers of the growth in 2005. Total trading turnover gained by 10.9% to HK\$1.76 billion. Higher commodities prices also offset impacts of slow sales demand in precious metal products. In geographical points of view, improved economic conditions encouraged sales in Indonesian and Malaysian region. Sales in Korea and Thailand, however, fell substantially because of loss in customers. Direct sales to China also fell as local competitors damaged the market by offering below-market-price strategies. Chinese factories were still suffering from shortage in electricity, skilled labor and high raw material prices. By the end of the year, shortfall of nickel in China pushed up the overall turnover significantly and also improved the full-year profitability.

Precious Metal Products

Weakening performance continued in precious metal business although stronger commodity prices contributed higher operating profits when compared with that in previous year. In spite of abolishment of tax rebate in gold products by Chinese government since mid-year, the overall market remained highly competitive. Rising concerns in environmental issues tightened regulations and import permits issuances to Chinese factories when using cyanide products for manufacturing. Sales volume in silver products tumbled as we insisted to sell with profits, not for market shares. Slow demand in palladium also dampened down the overall precious metal business. Sales in rhodium rose but profit margin was trimmed down almost half due to fierce competition among local and Chinese producers. Further squeezing in profit margin is expected in 2006 as many factories may seek for alternatives together with intensified competition.

Base Metal Products

Nickel electroplating business experienced a volatile environment in 2005. The pace of de-stocking within China market directed the whole sales turnover and profitability. The growth in turnover in 2005 partly benefited from the rise in commodity price and partly from supply shortage within China close to the end of the year. Such shortage escalated average margin in 2005. Robust economic growth in South East Asian countries also supported the nickel consumption in general as demand from Indonesia, Malaysia, and Taiwan remained strong in the second half year of 2005. Copper electroplating business experienced a flourishing year due to solid demand from printed-circuit board industries. With support of exceptional strong commodity price, sales turnover and gross profit both rose double-digits in the year. Competitions eased close to the end of the year as shortage in supply was also noticeable in the market.

Total inventory level as at 31st December, 2005 posted at HK\$129.7 million, representing a decrease of 9.7% when compared with HK\$134.2 million as at 31st December, 2004. The management has shortened the credit extension to customers so as to accelerate the cash flow period for commodity financing and minimize the risk in face of high commodity price.

Paint and Coating Chemicals

Total sales volume of 2005 improved by 9.2% over the same in 2004 and gross profit rose by 6.8%. Expanded production from Chinese competitors continued to intensify competition in local and global markets. Since the second half year of 2005, amid international oil price hovering at high level, cost pressure from suppliers as well as stockpiling effect in China market trimmed down part of our competitiveness. Oversupply situation in China has not been eased in early of 2006. Some of our major products experienced a decrease of more than 30-40% in selling price within a year. To cope with the market change, we shifted our focus to promoting high quality paints materials and secured supply channel into foreign-owned chemical companies. In addition, our suppliers also provide continued support to ensure our competitiveness in China market.

Stainless Steel

Stainless steel prices went up strongly in the first half year of 2005 because of the increase in raw material prices and the imbalance of supply and demand. With substantial increase in production including China and India, overcapacity started to hit most of coil and flat products in the mid-year, dragging down prices in the world markets. Amid the fall in global stainless steel price since the second half of the year, segment results consequently slightly dropped by 8.7% while sales volume rose by 18.0% over that of last year. Many stainless steel mills in Europe and Japan responded by cutting production since the third quarter till now to reduce global stockpiling and stabilize the world prices. In the early of 2006, worldwide depleted stock level has started to rebuild again as demand expanded in Europe and the U.S. Erosion in base price of stainless steel has also ceased. As at 31st December, 2005, average inventory cost was slightly below the latest purchase cost. Inventory level was reported at HK\$15.8 million as at 31st December, 2005 (as at 31.12.2004: HK\$13.4 million).

Property Investment Division

Total rental income rose by 9.7% to HK\$15.8 million in 2005 when compared with HK\$14.4 million in 2004. For the whole year, we only sold 4 residential flats in Haihua Garden with average selling price of RMB14,501.7 per square meter. Gain from properties sales was recorded at HK\$1.3 million before tax.

2005 total average occupancy rate for Hong Kong office was 89.3% when compared with 88.0% in 2004. As at 31st December 2005, occupancy rate was 100.0%. With Hong Kong economy trekking up during 2005, robust demand, generated mainly from multinational financial institutions, shrunk the vacancy in prime office spaces and boosted overall rental return in Grade A offices. High expectation of uprising rental from landlords narrowed the tenants' option and demand of spaces in second-tier office buildings located in prime commercial districts was improving starting in the fourth quarter of 2005. Market rent was also picking up close to the year end. Average monthly rental per square foot rose by 10.0%.

Average occupancy rate of Shanghai offices during 2005 was 99.9% compared with 92.4% during 2004. As at 31st December, 2005, office spaces in Shanghai were fully occupied. Supply of Grade A offices was still insufficient to cope with hefty demand from foreign financial institutions which they took opportunities to expand before China opens financial markets to overseas enterprises in 2006. Soaring office rental also drove up property price in Grade A offices. Such trend continued in the 1st quarter of 2006.

Average occupancy rate of Shanghai residential properties during 2005 recorded at 81.3% compared with 90.8% during 2004. As at 31st December, 2005, occupancy rate was at 79.2%. After implemented measure to control Shanghai residential properties market in 2005, the rally immediately cooled down to a stable growth condition. Plentiful supply in investor-owned residential properties pressured down the overall rental market in downtown area. Our rental level was cut down by an average of 30-35% when compared with the rental in 2004. As tenants have much broader option to select, vacancies also rose at the year end. Sales market in the second half year mainly concentrated at low-end properties (selling price marked below RMB 10,000 per square meter) in which it was expected government was taking an active role to help recover the volume transaction. The luxury residential properties showed a rebound at the end of year but a further decrease in average selling price was witnessed. As our properties was priced at mid-level (over RMB10,000 but less than RMB18,000 per square meter), transaction remained thin but market prices were resilient.

Following the new accounting standard, a total of HK\$9.955 million was credited on revaluation of Shanghai and Hong Kong Investment Properties after revalued by appointed surveyor as at 31st December, 2005.

Securities Investment Division

After the adoption of the Hong Kong Accounting Standards 32 and 39, the Group's securities portfolio has been re-classified. An analysis of the portfolio, current and non-current, by type of securities as at 31st December, 2005 is as below:

Market Value as at	31/12/2005	31/12/2004	Diff %
Investment held for trading (in HKD'000)	175,783	155,753	+12.5%
Distribution of Securities:			
Equities – Hong Kong	33,195	37,081	-10.5%
Equities- Overseas	25,804	25,570	+0.9%
Equities – Unlisted	0	1,170	-100.0%
Debt – Quoted/Listed	49,177	47,153	+4.3%
Mutual Funds – Quoted	67,607	45,181	+49.6%
Equity-linked Deposits	0	768	-100.0%

In 2005, stock markets in Europe, North and South Asian countries performed outstandingly whereas markets in the U.S. were reported almost no change on a yearly basis. The U.S. Treasuries market showed mixed performance, and inverted yield-curve was observed at the year end. Bond markets in Asian countries were performed badly as depreciation in currencies as well as inflation pressured policymakers to raise their interest rates. US dollar was exceptional strong against major currencies, except Chinese yuan, despite fear of inflation pressure and slow-down economy. Commodities market continued to be a shining star among all as oil was up 48% and gold jumped 14.5% year-on-year basis.

During 2005, we sold under-performed securities and part of bond-related funds and invested into equities-related managed funds totaling HK\$41.2 million. Under the new accounting standards, we credited a net gain of HK\$3.4 million in fair value of investment held for trading and structured bank deposits, together a loss of HK\$127k on disposal of investment held for trading. Large corporations continued their high dividend payout scheme during the year. Therefore, dividend income rose to HK\$2.4 million when compared with HK\$1.5 million in 2004. Interest income generated from portfolio was reported at HK\$1.7 million.

Looking towards 2006, it is expected that oil -price volatility remains high and inflation pressure continued to be one of the concerns among all investors. The newly appointed U.S. Federal Reserve Bank Chairman Bernanke has pledged to continue the Fed's fight against inflation, with an aim to preserving the stability of the financial markets and fostering employment. The management will continue to review and monitor the whole portfolio and the global markets as well and re-allocate the securities if necessary to cope with the changing financial markets.

EMPLOYEES

Total number of the Group's staff reduced by 2 persons to 85 persons as at 31st December, 2005 comparing with 87 persons as at the year ended 2004. Staff turnover rate remained steadily low.

In accordance with HKAS 19 Employment Benefits, we are required to provide for the cost of benefits determined by actuarial valuation being carried out as at 31st December, 2005. The cost of benefits for employment was determined at HK\$2.1 million as of 31st December, 2005. Excluding such cost, total staff cost in 2005 only rose by 5.0% over than in 2004. The rise in staff cost was in line with inflation index, staff yearly performance evaluation as well as better payout for improved performance for the whole year of 2005.

In 2006, the management will continue to encourage staff to continue his/her further studies in his/her particular field to enhance and enrich professional knowledge and current practices.

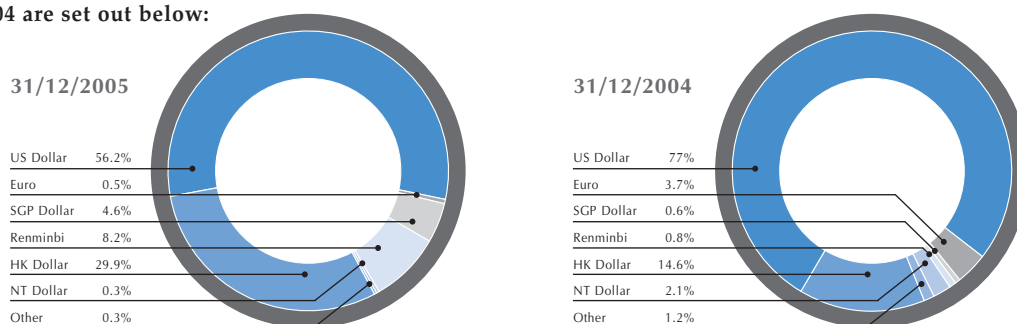
FINANCIAL RESOURCES AND LIQUIDITY

For the year of 2005, cash inflow from operation activities was HK\$ 59.8 million when compared cash outflow from operation of HK\$52.3 million for the year of 2004. The rise in cash flow was mainly driven by reduced inventory level and account and bills receivable level. Equity attributable to equity holders of the parent company dropped by 2.8% to HK\$593.4 million following a total dividend distribution of HK\$89 million made during the year 2005. Return on equity ratio for the fiscal year of 2005 was 11.4% when compared with 8.4% for the fiscal year of 2004.

Working capital as at 31st December, 2005 dropped by HK\$8.5 million to HK\$265.7 million when compared with HK\$274.2 million as at 31st December, 2004. Inventory as at 31st December, 2005 was posted at HK\$145.4 million, representing a decrease of 1.3% when compared with HK\$147.3 million as at 31st December, 2004. The fall in inventory was partly due to limited supply from our core suppliers and partly due to reduction in goods ordering before Chinese New Year. Trade debtor amounted to HK\$143.6 million as at 31st December, 2005, representing an increase of HK\$14.8 million over the same last year, was mainly a reflection of rising metal prices over credit sales. Trading turnover day as at 31st December, 2005 remained the same as that as at 31st December, 2004 at 27 days.

The Group net cash outflow as at 31st December, 2005 amounted to HK\$63.8 million (As at 31st December, 2004: net cash outflow HK\$43.3 million). Negative net cash due to dividend payment during the year was main reason of the fall in total short term cash reserve. Capital expenditure during the year amounted to HK\$2.2 million (2004: HK\$ 3.4 million).

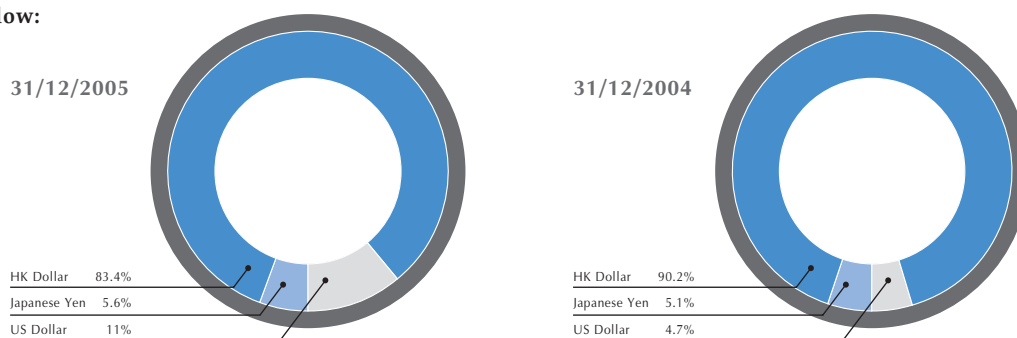
An analysis of cash and short term bank deposits by currencies as at 31st December, 2005 and 31st December, 2004 are set out below:



DEBT STRUCTURE

All borrowings are in form of Money Market bank loans and Trust Receipt for the year 2005. Average lending tenor for Trust Receipt in financing trading facilities was about 56 days in the fiscal year of 2005, two days shorter than 58 days in 2004. Money-Market bank loans is either used to finance additional safety stocks held or to finance assets purchased in the same foreign currencies. Average interest rate charged to trust receipt borrowings was 3.86% in fiscal year 2005 when compared with 1.53% charged to trust receipt borrowings in 2004. Average total bank borrowing interest rate charged at 3.77% in 2005 whereas 1.52% was charged in 2004. Total finance cost in 2005 accounted HK\$9.9 million (2004: HK\$4.1 million).

An analysis on bank borrowings by currencies as at 31st December, 2005 and 31st December, 2004 are set out below:



As at 31st December, 2005, total banking facilities granted by lenders to the Group amounted HK\$628.2 million. Average banking utilization rate accounted at 43.4% during 2005. Debt to equities ratio declined to 0.46:1 as at the period ended 31st December, 2005 when compared with 0.49:1 as at the year ended 31st December, 2004. During the year, we employed part of internal funds to finance part of receivables extended to customers.

FOREIGN CURRENCY RISK

The Group's transactions were conducted in Hong Kong Dollars, United States Dollars, Japanese Yen, Euro, British Sterling, Renminbi, Australian Dollars, Singapore Dollars and New Taiwanese Dollars. In order to reduce the risk, the Group normally used forward exchange contracts to hedge the return currency of such transaction or borrowed the same currency to fund such transaction. As at 31st December, 2005, 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.

1. INTRODUCTION

Kee Shing (Holdings) Limited (the "Company") is committed to establish and maintain high standards of corporate governance – the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured.

This Corporate Governance Report is to outline the major principles of the Company's governance. It intends to describe how the Group has applied the Code Provisions set out in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited ("The Stock Exchange"). It also highlights key changes and/or progress of the Company made to comply with the Code. Shareholders are encouraged to make their views known to the Group with concerns of the Company's corporate governance issues and to directly raise any matters of concerns to the Chairman. The Chairman will be present in the Annual General Meeting to be held on 25th May, 2006 to share views on matters of concerns.

2. STATEMENT OF COMPLIANCE

The Company considers that it has complied with the Code Provisions in the Code during the accounting period ended 31st December, 2005.

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

For the accounting period ended 31st December, 2005, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's codes of conduct regarding Directors' securities transactions.

3. MISSION OF THE BOARD

The Board is collectively responsible for the success and interest of the Group through leadership and supervisions. The principal tasks of the Board are:

- Provide entrepreneurial leadership of the Company with a framework of prudent and effective controls which enables risks to be assessed and managed.
- Set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance.
- Set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

4. MAJOR GOVERNANCE PRINCIPLES

4.1 DIRECTORS

Board Composition

Throughout the accounting period ended 31st December, 2005, the Board comprised four non-executive directors and four executive directors. All of them served a full-year in office during 2005.

The structure of the Board and the integrity of the individual Directors ensure that no one individual or group dominates the decision-making process. Three non-executive directors, namely Mr. Wong Kong Chi, Mr. Lai Chung Wing, Robert, and Mr. Chan Wing Lee, are considered to be independent within the guidelines set out in the Listing Rule 3.13. Together, the independent non-executive directors bring a wide range of skills and international experience to the Board. They ensure that independent judgment is exercised and that a proper balance of power is maintained for full and effective control of both the Group and its executive management, thereby performing an essential role in safeguarding investors' interests.

The Board supports the principle of Board independence and continually reviews the implementation of this principle. Biographical details of each non-executive directors are detailed on page 17 of the financial statements.

The Group also appoints employees in key executive position to form strong management teams in its business areas. These management teams comprise both executive directors and senior officers to develop and implement both operational and non-operational duties. The management teams report directly to the Managing Director and the Group key executives meet with the Chairman, Managing Directors and other Board's executive directors on a monthly basis to report business performances and operational and functional issues. This will allow the Group's management to focus resources more efficiently in decision-making and facilitate daily operation. The biographical details and responsibilities of each executive director and senior officer are detailed on page 17 and 18 of the financial statement.

Chairman and Managing Director

The offices of the Chairman and the Managing Director are held separately with a clear division of responsibility between them. The Board has resolved on 10th August, 2005 to adopt a formal schedule of "The Role of Chairman and Chief Executive Officer". The Chairman of the Board, Mr. Leung Shu Wing, is responsible for leadership of the Board and creating the conditions for overall Board and individual director effectiveness, both inside and outside the boardroom. The Chairman has a key role in the development of the Group's strategy and in ensuring management succession. Miss Leung Miu King, Marina, was appointed as Managing Director of the Group on 10th August, 2005. She has executive responsibilities for the leadership of the executive management of the Company. The Managing Director is to take overall responsibilities for the supervision and the conducts of the Company business and its ordinary operation, in accordance with the policies, strategies and objectives established by the Company. Miss Leung Miu King, Marina is the daughter of the Chairman, Mr. Leung Shu Wing.

Responsibilities of Directors

The Directors fully appreciate their role and duties as directors and are committed to good corporate governance.

On appointment, new directors will be given a comprehensive updated induction package of the Group. The package is designed to develop the new directors' knowledge and understanding of the Group. The Company Secretary will organize an induction programme to the new director to ensure that he has a proper understanding of his duties and responsibilities. The induction programme includes an overview of the Group's business operation, the Board procedures, matter reserved to the Board, an introduction of the Board Committee, directors' responsibilities and duties, relevant regulatory requirements, copies of minutes of the Board and Board Committees in the past 12 months, and briefings with senior management and site visits (if necessary). The need for director trainings is regularly assessed by the Board. In the fiscal year of 2005, no new Director was appointed.

The Company Secretary is responsible for keeping all directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company.

Appointment, Re-election and Removal

All the non-executive directors of the Company have entered into service agreements with the Company for a specific term of two years commencing on 8th November, 2005 in the case of Messrs. Wong Kong Chi, Lai Chung Wing, Robert, and Chan Wing Lee and on 16th December, 2005 in the case of Mr. Yuen Tin Fan, Francis. All directors are subject to periodic reappointment by the shareholders through rotation in Annual General Meeting pursuant to the Company's existing Articles of Association.

4.2 BOARD PROCESS

Meetings

The Board met four times in the fiscal year of 2005 at approximately quarterly intervals and the majority of the directors participated in each meeting. The Company Secretary, Mr. Wong Choi Ying, kept detailed minutes of each meeting including any dissenting views expressed by the directors. The attendance of each director at these meetings is shown in the table below:

	Attended in person	Apologies given
Executive Directors:		
Mr. Leung Shu Wing (<i>Chairman</i>)	4	–
Miss. Leung Miu King, Marina (<i>Managing Director</i>)	4	–
Mr. Wong Chi Kin	4	–
Mr. Wong Choi Ying (<i>Company Secretary</i>)	4	–
Non-Executive Directors:		
Mr. Yuen Tin Fan, Francis	–	4
Mr. Wong Kong Chi (<i>Independent</i>)	4	–
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	4	–
Mr. Chan Wing Lee (<i>Independent</i>)	4	–

The Board resolved on 10th August, 2005 to adopt a schedule of Matters Reserved for the Board to ensure that its delegation of management and administration functions to the management is clear and unambiguous. The schedule sets out matters specifically reserved for the Board for decision including the establishment of the Group's long term objectives and commercial strategy, approval and monitoring of budgets, changes of the Group's corporate structure, capital and listing status, approval of financial statements and announcement of results, declaration of dividends, approval of material transactions, appointment and remuneration of board members and senior executives, and other matters more specifically described in the schedule.

4.3 REMUNERATION COMMITTEE

The Remuneration Committee, which was set up on 10th August, 2005 and under the chairmanship of Mr. Wong Kong Chi, comprises the three independent non-executive directors and one executive director. In the fiscal year 2005, the Remuneration Committee met twice and the attendance of each director at these meetings is shown in the table below:

	Attended in person	Apologies given
Non-Executive Directors:		
Mr. Wong Kong Chi (<i>Independent</i>)	2	–
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	2	–
Mr. Chan Wing Lee (<i>Independent</i>)	2	–
Executive Directors:		
Mr. Wong Chi Kin	2	–

The Remuneration Committee is a Board committee delegated with the primary responsibilities to oversee the policy and structure of the remuneration of the directors and senior management of the Company and to approve specific remuneration packages of all executive directors and senior management. The duties and responsibilities of the Remuneration Committee are more specifically set out in its Terms of Reference, which is available for inspection at the Company's website www.keeshing.com or by making request to the Company Secretary.

The Remuneration Committee presents reports on its work and findings to the Board after each meeting. Minutes of each meeting were made available to all the directors' inspection.

The Remuneration Committee has held discussions and made recommendations to the Board on new remuneration policy for executive directors and senior managers in 2006. No Director is involved in deciding his own remuneration, whether determined by the Remuneration Committee, or in the case of non-executive directors, by the Board.

4.4 ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board believes that it presents a balanced, clear and comprehensive assessment of the Group position and prospects in all written communication with shareholders. The Board also fully appreciates its responsibilities regarding the preparation of financial statements.

Audit Committee and Auditors

The Audit Committee, under the chairmanship of Mr. Wong Kong Chi, consists of three independent non-executive directors. External auditors, executive directors and the Group Assistant Financial Controller are invited to attend the Audit Committee meetings. The Audit Committee met on four occasions during the year 2005 and the attendance of each member at these meetings is shown in the table below:

	Attended in person	Apologies given
Non-Executive Directors:		
Mr. Wong Kong Chi (<i>Independent</i>)	4	–
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	4	–
Mr. Chan Wing Lee (<i>Independent</i>)	4	–

The Audit Committee is required, amongst other things, to oversee the relationship with external auditors, review the Company's annual and interim financial statements, and evaluate the Group's internal controls and risk management systems. There is in place an agreed procedure for Audit Committee members for seeking independent professional advice at Company's expense. The Audit Committee reports its work and findings to the Board after each meeting. Minutes of each meeting were kept by the Company Secretary and made available to all Directors.

Terms of Reference of the Audit Committee are available for inspection at the Company's website www.keeshing.com or by making request to the Company Secretary.

Auditor Independence

The Board, on the recommendation of Audit Committee, approved the appointment of Deloitte Touche Tohmatsu to perform its audit services to the Group for the fiscal year of 2005. Deloitte Touche Tohmatsu has been the Group's appointed external auditor since its public listing in 1989. A letter from Deloitte Touche Tohmatsu dated 9th December, 2005 has stated that it complies with the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" and Professional Ethics Guidance 1.308 "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountant.

During the year of 2005, total fees paid to the Group's external Hong Kong auditors, Deloitte Touche Tohmatsu, amounted to HK\$1,724,556, of which comprised 25.2% or HK\$433,730 were fee for non-audit services, including taxation, secretarial and interim review for the period ended 30th June, 2005.

Internal Control

In 2005, the Audit Committee has reviewed the interim and final results of the Group as well as the Group's internal controls and risk exposure. Also, it has examined the external auditor's independence including its engagement of non-audit services. During the year, there is no event or condition of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Overall result of the review by the Audit Committee is found to be satisfactory.

4.5 DELEGATION BY BOARD

The Board and management fully appreciate their respective roles and are committed to good corporate governance. The Board is responsible for overseeing the processes by which the management identifies business opportunities and risks. The Board's role is not to manage the business and the responsibility of which remains vested in management. The Board has set up a formal schedule of matters specifically reserved for the Board's decision. Matters which the Board considers suitable for delegation are contained in the terms of reference of its Committee. In addition, the Board will receive reports and recommendations from time to time on any matter which it considers significant to the Group.

4.6 COMMUNICATION WITH SHAREHOLDERS

Communication programme for Shareholders

The Group strives to disclose relevant information on its activities to shareholders in an open and timely manner, subject to applicable legal requirements. Communication is achieved through:

- The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group position and prospects;
- Notices of annual and other general meetings and accompanying explanatory materials;
- Press releases on major development of the Group;
- Disclosures to Stock Exchange and relevant regulatory bodies;
- Response to inquiries from shareholders or media by the Company Secretary;
- Company's website at www.keeshing.com making available, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

Constructive use of Annual General Meetings

The Board values the Annual General Meetings as the principal opportunity to meet shareholders. All executive directors and the chairman of the Audit Committee attended the Annual General Meeting held on 31st May, 2005. Annual Report and Financial Statements and related papers are posted to shareholders for their consideration at least 35 days prior to the Annual General Meeting. Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices.

EXECUTIVE DIRECTORS

Mr. Leung Shu Wing, aged 67, is the founder of the Group and the Chairman of the company. Mr. Leung has over 41 years of experience in trading of electroplating materials and chemicals. He is currently responsible for the Group's strategic planning.

Miss Leung Miu King, Marina, aged 36, the daughter of Mr. Leung Shu Wing, joined the Group in November, 1995. She holds a bachelor degree of business administration from the University of San Francisco. Miss Leung has over one year's experience in trade finance with a bank in Hong Kong. She is the Managing Director of the Group.

Mr. Wong Chi Kin, Herbert, aged 55 joined the Group in 1984. He has over 32 years of experience in metal trading. Mr. Wong is the managing director of Kee Shing Hardware Supplies Ltd., a subsidiary of the Group which is engaged in trading of stainless steel.

Mr. Wong Choi Ying, Aaron, aged 53 joined the Group in 1988. He holds a bachelor degree of business administration from the Chinese University of Hong Kong, a fellow of the Chartered Association of Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 26 years of experience in financial management. He worked for Tai Sang Land Development Limited for over five years before joining the Group. He is the Finance Director and Company Secretary of the Group. He is responsible for the Group's financial planning and management.

NON-EXECUTIVE DIRECTORS

Mr. Yuen Tin Fan, Francis, aged 53 is Chairman of Tien Fung Hong Group of companies and a non-executive director of a number of companies whose share are listed on The Hong Kong Stock Exchange. From 1988 to 1991, he was the chief executive of The Stock Exchange of Hong Kong Limited. Mr. Yuen is also a member of Shanghai People's Political Consultative Committee.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Kong Chi, aged 48, is a certified public accountant. Mr. Wong retired in 1993 after working in the merchant banking industry for over 10 years and since then has sat on the boards of several listed companies in Hong Kong as independent non-executive directors.

Mr. Lai Chung Wing, Robert, aged 58, is an independent non-Executive Director of Kingboard Copper Foils Holdings Limited, a publicly listed company on the Stock Exchange of Singapore. He holds a Bachelor-of-Laws (Honours) degree from the University of London and is currently involved in business consultancy work in the Asia-Pacific region. He has extensive experience in trading and investment. He was previously the managing director of Sen Hong Resources Holdings Ltd. (now known as South Sea Petroleum Holdings Ltd.), an oil and gas company listed on The Stock Exchange of Hong Kong Limited.

Mr. Chan Wing Lee, aged 67, has over 36 years of commercial banking experience. He has had extensive banking experience and numerous relationships with clients in a variety of industries. He also has had deep understanding of Hong Kong and China business environment settings. He was previously an executive director of DBS Kwong On Bank Limited (now known as DBS Bank (Hong Kong) Limited).

SENIOR MANAGEMENT PROFILES

Mr. Chan Yuet Lung, Frankie, aged 51, joined the Group in 1988. He holds a degree in business administration from California State University, Long Beach. Prior to his joining the Group, he had worked for Cafe De Coral group of companies for 9 years. He has 28 years of experience in management sales and marketing. Mr. Chan is the Director and General Manager of Kee Shing Industrial Products Limited, a subsidiary of the Group which is engaged in trading of electroplating chemicals and metals.

Mr. Wong Siu Hung, Rico, aged 47, joined the Group in 1987. He has over 25 years of experience in China trade. Mr. Wong is the Director and General Manager of Sam Wing International Limited, a subsidiary of the Group which is engaged in trading paints and coating chemicals.

Madam Kwai Ah Ning, Annie, aged 56, joined the Group in 1996. Madam Kwai holds a bachelor degree in Business Economics from Shanghai Administrative Institute. Prior to joining the Group, she had over 25 years of experience working in electronic technology, administrative management and international trading business. She is the General Manager of Kee Shing Property Consultants (Shanghai) Company Limited, a subsidiary of the Group which is engaged in managing investment properties in Shanghai.

Mr. Kee Wei Lee, aged 33, joined the Group in July 2004. He holds a Bachelor of Arts and Master of Engineering (Chemical Engineering) from the University of Cambridge. Prior to joining the Group, he worked in ExxonMobil Chemical for six years, with experience in technical, planning and management roles. Mr. Kee is a Director and chemical division manager of KSIP (Singapore) Pte Limited, a subsidiary of the Group which is engaged in trading electroplating chemicals and metals.

Mr. Leung Chi Lam, Stanley, aged 41, joined the Group in 1990. He holds a bachelor degree of chemistry from the Chinese University of Hong Kong. He has over 18 years of experience in electroplating industry. He is the General Manager of Engotech Limited, a subsidiary of the Group which is engaged in trading electroplating chemicals and solutions.

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 23.

An interim dividend of 10.0 cents per share, amounting to approximately HK\$44,550,000, was paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 10.0 cents per share to the shareholders of the Company whose names appear on the register of members on 25th May, 2006, amounting to approximately HK\$44,550,000.

INVESTMENT PROPERTIES

All of the investment properties of the Group were revalued at 31st December, 2005, as set out in note 14 to the financial statements. The net increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to HK\$9,955,000.

Particulars of the investment properties of the Group as at 31st December, 2005 are set out on page 60.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2005, the Company's reserves available for distribution to shareholders comprised the retained profits of HK\$222,432,000 (2004 as restated: HK\$255,524,000).

Details of the Company's distributable reserves are set out in note 29 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Leung Shu Wing – *Chairman*

Leung Miu King

Wong Chi Kin

Wong Choi Ying

Non-executive director:

Yuen Tin Fan, Francis

Independent non-executive directors:

Wong Kong Chi

Lai Chung Wing, Robert

Chan Wing Lee

In accordance with Article 116 of the Company's Articles of Association, Messrs. Leung Miu King, Wong Chi Kin and Wong Choi Ying retire by rotation and, being eligible, offer themselves for re-election.

All of the directors proposed for re-election at the forthcoming annual general meeting have a service contracts with the Company with no fixed term of year.

The non-executive directors service contracts with a term of two years.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2005, 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 Ordinance ("SFO Ordinance"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model 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) Founder of discretionary trust (Note 2)	26,984,000 74,770,000	6.057% 16.783%
		<u>101,754,000</u>	<u>22.840%</u>
Leung Miu King	Beneficial owner	20,634,000	4.632%
Wong Chi Kin	Beneficial owner	767,000	0.172%
Wong Choi Ying	Beneficial owner	9,500	0.002%
		<u>307,855,575</u>	<u>69.103%</u>

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	Beneficial owner	7,000	70%
Sam Wing International Limited	Leung Shu Wing	Beneficial owner	19,440	90%

Save as disclosed above, at 31st December, 2005, 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 corporations as defined in the SFO Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements 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 or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests of certain directors disclosed under the heading "Directors' Interests 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 31st December, 2005.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2005, the aggregate turnover attributable to the Group's five largest customers was less than 27% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 91% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 57% of the total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy of the senior employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

LEUNG SHU WING
CHAIRMAN

12th April, 2006



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香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE SHAREHOLDERS OF KEE SHING (HOLDINGS) LIMITED

奇盛(集團)有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 23 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

12th April, 2006

For the year ended 31st December, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	5	1,964,169	1,770,634
Other income	6	3,043	5,231
Changes in inventories of finished goods		(1,895)	58,254
Purchases of goods held for resale		(1,793,878)	(1,679,785)
Raw materials and consumables used		(38,271)	(29,164)
Staff costs		(27,605)	(24,317)
Depreciation and amortisation		(2,735)	(2,165)
Other expenses		(29,456)	(37,692)
Loss on disposal of investments held for trading/ gain on disposal of other investments		(127)	443
Gain arising from changes in fair value of investments held for trading/unrealised loss on other investments		5,718	(600)
Loss arising from changes in fair value of structured bank deposits		(2,366)	–
Gain on disposal of investment properties		1,336	–
Gain arising from changes in fair value of investment properties		9,955	9,540
Finance costs	7	(9,856)	(4,052)
Share of profit (loss) of associates		3,257	(4,356)
Profit before taxation		81,289	61,971
Income tax expense	8	(11,881)	(9,300)
Profit for the year	9	69,408	52,671
Attributable to:			
Equity holders of the parent		67,874	51,299
Minority interests		1,534	1,372
		69,408	52,671
Dividends	12	89,100	55,688
Earnings per share – basic	13	HK15.24 cents	HK11.51 cents

At 31st December, 2005

	NOTES	THE GROUP		THE COMPANY	
		2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000
Non-current Assets					
Investment properties	14	266,561	260,326	–	–
Property, plant and equipment	15	33,532	34,445	1,911	1,439
Investments in subsidiaries	16	–	–	38,582	38,587
Interests in associates	17	27,676	24,938	–	–
Available-for-sale investments	18	585	–	–	–
Investments in securities	19	–	23,419	–	–
Amounts due from subsidiaries	20	–	–	399,655	442,864
Structured bank deposits		28,714	31,080	–	–
Equity-linked deposits		–	768	–	–
		<u>357,068</u>	<u>374,976</u>	<u>440,148</u>	<u>482,890</u>
Current Assets					
Inventories	21	145,431	147,332	–	–
Debtors, deposits and prepayments	22	159,900	145,875	389	1,277
Bills receivable		10,965	27,187	–	–
Investments held for trading	23	175,783	–	–	–
Investments in securities	19	–	128,330	–	–
Taxation recoverable		37	235	–	–
Short term bank deposits		21,295	96,157	–	–
Bank balances and cash		78,849	67,670	1,029	80
		<u>592,260</u>	<u>612,786</u>	<u>1,418</u>	<u>1,357</u>
Current Liabilities					
Creditors and accrued charges	25	38,395	32,119	2,501	1,709
Amounts due to minority shareholders of subsidiaries		11,306	–	–	–
Taxation payable		3,894	4,301	–	–
Bank borrowings	26	272,928	302,130	15,000	15,000
Amount due to subsidiaries		–	–	25,630	19,798
		<u>326,523</u>	<u>338,550</u>	<u>43,131</u>	<u>36,507</u>
Net Current Assets (Liabilities)		<u>265,737</u>	<u>274,236</u>	<u>(41,713)</u>	<u>(35,150)</u>
Total Assets Less Current Liabilities		<u>622,805</u>	<u>649,212</u>	<u>398,435</u>	<u>447,740</u>

At 31st December, 2005

	NOTES	THE GROUP		THE COMPANY	
		2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000
Capital and Reserves					
Share capital	28	22,275	22,275	22,275	22,275
Reserves	29	571,124	588,142	376,160	425,465
Equity attributable to equity holders of the parent		593,399	610,417	398,435	447,740
Minority Interests		21,733	19,774	–	–
Total Equity		615,132	630,191	398,435	447,740
Non-current Liabilities					
Amounts due to minority shareholders of subsidiaries		–	12,400	–	–
Deferred tax liabilities	30	7,673	6,621	–	–
		7,673	19,021	–	–
		622,805	649,212	398,435	447,740

The financial statements on pages 23 to 59 were approved and authorised for issue by the Board of Directors on 12th April, 2006 and are signed on its behalf by:

LEUNG SHU WING
DIRECTOR

WONG CHOI YING
DIRECTOR

For the year ended 31st December, 2005

	Attributable to equity holders of the Parent									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Property 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, 2004										
– as originally stated	22,275	153,728	22,988	6,860	11,366	1,698	387,860	606,775	17,592	624,367
– effect of change in accounting policy (note 3)	–	–	–	–	–	–	970	970	–	970
– as restated	22,275	153,728	22,988	6,860	11,366	1,698	388,830	607,745	17,592	625,337
Surplus arising on revaluation of investment properties	–	–	–	8,356	–	–	–	8,356	–	8,356
Minority interests' share of surplus arising on revaluation of investment properties	–	–	–	(572)	–	–	–	(572)	572	–
Exchange difference arising on translation of overseas operations	–	–	–	–	–	(115)	–	(115)	412	297
Share of an associate's movement in reserves	–	–	–	–	–	85	2	87	–	87
Deferred tax liability on revaluation of properties	–	–	–	(695)	–	–	–	(695)	–	(695)
Net income (expense) recognised in equity	–	–	–	7,089	–	(30)	2	7,061	984	8,045
Profit for the year	–	–	–	–	–	–	51,299	51,299	1,372	52,671
Total recognised income and expense for the year	–	–	–	7,089	–	(30)	51,301	58,360	2,356	60,716
Dividends paid	–	–	–	–	–	–	(55,688)	(55,688)	(174)	(55,862)
At 31st December, 2004	22,275	153,728	22,988	13,949	11,366	1,668	384,443	610,417	19,774	630,191
At 1st January, 2005	22,275	153,728	22,988	13,949	11,366	1,668	384,443	610,417	19,774	630,191
Opening balance adjustments:										
– transfer (note)	–	–	–	(6,860)	6,860	–	–	–	–	–
– effects of changes in accounting policies (notes 2 and 3)	–	–	(22,988)	(7,089)	–	–	34,382	4,305	–	4,305
At 1st January, 2005 as restated	22,275	153,728	–	–	18,226	1,668	418,825	614,722	19,774	634,496
Exchange differences arising on translation of overseas operations	–	–	–	–	–	422	–	422	(201)	221
Released from winding up of a subsidiary	–	–	–	–	–	–	–	–	900	900
Share of an associate's movement in reserves	–	–	–	–	–	(519)	–	(519)	–	(519)
Net (expense) income recognised in equity	–	–	–	–	–	(97)	–	(97)	699	602
Profit for the year	–	–	–	–	–	–	67,874	67,874	1,534	69,408
Total recognised income and expense for the year	–	–	–	–	–	(97)	67,874	67,777	2,233	70,010
Dividends paid	–	–	–	–	–	–	(89,100)	(89,100)	(274)	(89,374)
At 31st December, 2005	22,275	153,728	–	–	18,226	1,571	397,599	593,399	21,733	615,132

Note:

The balance of investment property revaluation reserve of the Group at 31st December, 2004 includes an amount of HK\$6,860,000 (2003: HK\$6,860,000), which represents the accumulated amount transferred from the property revaluation reserve as a result of the change in usage of certain previously self-occupied leasehold properties to investment properties. Such revaluation reserve has been frozen upon the transfer and transferred back to property revaluation reserve and will be transferred to retained profits when the relevant properties are disposed of. In addition, such revaluation reserve is reallocated to property revaluation revenue for easier identification.

For the year ended 31st December, 2005

	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	81,289	61,971
Adjustments for:		
Depreciation and amortisation	2,735	2,165
Loss on disposal of investments held for trading/gain on disposal of other investments	127	(443)
(Gain arising from changes in fair value of investments held for trading)/ unrealised loss on other investments	(5,718)	600
Loss arising from changes in fair value of structured bank deposits	2,366	–
Impairment loss on trade debtors	1,663	5,667
Reversal of impairment loss on trade debtors	(35)	(290)
Gain on disposal of investment properties	(1,336)	–
Gain arising from changes in fair value of investment properties	(9,955)	(9,540)
Finance costs	9,856	4,052
Share of (profit) loss of associates	(3,257)	4,356
Loss (gain) on disposal of property, plant and equipment	147	(374)
Interest income from bank deposits	(2,282)	(2,631)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	75,600	65,533
Decrease (increase) in inventories	1,893	(57,502)
Increase in debtors, deposits and prepayments	(15,197)	(31,362)
Decrease in bills receivable	16,559	4,935
Increase in investments held for trading	(14,723)	(9,896)
Increase (decrease) in creditors and accrued charges	6,680	(17,151)
	<hr/>	<hr/>
Cash generated from (used in) operations	70,812	(45,443)
Hong Kong Profits Tax paid	(9,534)	(4,970)
Profits tax outside Hong Kong paid	(1,494)	(1,888)
	<hr/>	<hr/>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	59,784	(52,301)
INVESTING ACTIVITIES		
Decrease in structured bank deposits	–	7,720
Purchase of property, plant and equipment	(2,179)	(3,407)
Decrease in equity-linked deposits	768	342
Purchase of investment securities	–	(7,946)
Interest received from bank deposits	2,282	2,631
Proceeds from disposal of investment securities	–	7,800
Proceeds from disposal of investment properties	5,056	–
Proceeds from disposal of property, plant and equipment	24	396
	<hr/>	<hr/>
NET CASH FROM INVESTING ACTIVITIES	5,951	7,536

For the year ended 31st December, 2005

	2005 HK\$'000	2004 HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	–	62,271
Repayment of bank borrowings	(29,202)	–
Dividends paid	(89,100)	(55,688)
Interest paid	(9,856)	(4,052)
Dividends paid to minority shareholders of subsidiaries	(274)	(174)
Amounts repaid to minority shareholders of subsidiaries	(1,094)	(938)
	<hr/>	<hr/>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(129,526)	1,419
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,791)	(43,346)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	163,827	207,012
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	108	161
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	100,144	163,827
	<hr/>	<hr/>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short term bank deposits	21,295	96,157
Bank balances and cash	78,849	67,670
	<hr/>	<hr/>
	100,144	163,827
	<hr/>	<hr/>

For the year ended 31st December, 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the section of Corporate Information.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 38.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associate have been changed. The change in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Business combination

In the current year, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$22,988,000 has been transferred to the Group's retained earnings on 1st January, 2005 (Refer to Note 3 for the financial impact).

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill, which amounted to HK\$22,988,000 at 1st January, 2005 and was previously recorded in reserves, with a corresponding increase to retained profits.

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (*continued*)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual years beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investment in Securities" (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Available-for-sale financial assets" are carried at cost less impairment, as fair value cannot be reliably measured. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised costs using the effective interest method.

On 1st January, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. An adjustment of HK\$4,305,000 to the previous carrying amounts of assets and liabilities at 1st January, 2005 has been made to the Group's retained earnings.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. For this reclassification, there has been no material impact on the results for the current and prior accounting years.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in investment property revaluation reserve at 1st January, 2005 of HK\$7,089,000 has been transferred to the Group's retained profits.

For the year ended 31st December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated (Refer to Note 3 for the financial impact).

Owner-occupied leasehold land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In the opinion of the directors, the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Impacts on the financial statements of the Company

Prior to the application of HKAS 39, the interest-free non-current amounts due from subsidiaries were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free receivables are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the amounts due from subsidiaries as at 1st January, 2005 has been decreased by HK\$16,213,000 in order to state the amounts at amortised cost in accordance with HKAS 39. The Company's retained profits as at 1st January, 2005 has been decreased by HK\$16,213,000 correspondingly, which represents the impairment loss made on the deemed capital contribution to the subsidiaries upon recognition of the amounts due from subsidiaries.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ²
HKAS 21 (Amendment)	Net investment in a foreign operation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ²
HKAS 39 (Amendment)	The fair value option ²
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts ²
HKFRS 6	Exploration for and evaluation of mineral resources ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ²
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ³
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics ⁴

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

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

³ Effective for annual periods beginning on or after 1st December, 2005.

⁴ Effective for annual periods beginning on or after 1st March, 2006.

For the year ended 31st December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES ON THE GROUP

The effects of the adoption of new HKFRSs on the Group's results for the current and prior year are as follows:

	2005 HK\$'000	2004 HK\$'000
Loss arising from changes in fair value of investments held for trading	(1,563)	-
Loss arising from changes in fair value of other financial assets	(2,366)	-
Decrease in share of profit of associates/increase in share of loss of associates	(212)	(60)
Decrease in income tax expense	212	60
Decrease (increase) in deferred tax charge on revaluation of investment properties (included in income tax expense)	318	(63)
Gain arising from changes in fair value of investment properties	9,955	-
	<u>6,344</u>	<u>(63)</u>
Increase (decrease) in profit for the year		

The cumulative effects of the application of the new HKFRSs as at 31st December 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HK\$'000	Retrospective adjustments		As at 31st December, 2004 (restated) HK\$'000	Adjustments			As at 1st January, 2005 (restated) HK\$'000
		HKAS 1 HK\$'000	HKAS Int. 21 HK\$'000		HKAS 32 & HKFRS 3 HK\$'000	HKAS 39 HK\$'000	HKAS 40 HK\$'000	
Investments in securities	23,419	-	-	23,419	-	4,305	-	27,724
Deferred tax liabilities	(7,473)	-	852	(6,621)	-	-	-	(6,621)
Total effects on assets and liabilities		<u>-</u>	<u>852</u>		<u>-</u>	<u>4,305</u>	<u>-</u>	
Retained profits	383,536	-	907	384,443	22,988	4,305	7,089	418,825
Capital reserve	22,988	-	-	22,988	(22,988)	-	-	-
Investment properties revaluation reserve	7,144	-	(55)	7,089	-	-	(7,089)	-
Minority interests	-	19,774	-	19,774	-	-	-	19,774
Total effects on equity		<u>19,774</u>	<u>852</u>		<u>-</u>	<u>4,305</u>	<u>-</u>	
Minority interests	19,774	(19,774)	-	-	-	-	-	-

The effect on the adoption of new HKFRSs for the Group's equity at 1st January, 2004 was to increase the retained profits by HK\$970,000 due to the application of HKAS Int 21.

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The 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 explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Basis of consolidation

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate or jointly controlled entity.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary or an associate for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accounted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Revenue recognition

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

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less accumulated subsequent depreciation, amortisation and any identified impairment loss.

Certain of the Group's leasehold land and buildings were revalued at 31st December, 1991. The surplus arising on revaluation of land and buildings was credited to the property revaluation reserve. Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30th September, 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Subsidiaries

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

Associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Inventories

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

Impairment other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at fair value through profit or loss

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Debtors, deposits and bills receivable

At each balance sheet date subsequent to initial recognition, debtors, deposits and bills receivable are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and are subject to an insignificant risk of changes in value.

Borrowings

Interest-bearing bank loans are initially recorded at the proceeds and are subsequently measured at amortised cost, using the effective interest rate method. Finance costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Creditors and accrued charges and amounts due to minority shareholders of subsidiaries

Creditors and accrued charges and amounts due to minority shareholders of subsidiaries are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Taxation

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

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

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

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

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

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

For the year ended 31st December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits scheme

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

Key sources of estimation uncertainty

Estimated impairment of goodwill arising on acquisition of an associate

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at balance sheet date, the impairment loss recognised in respect of goodwill arising on acquisition of an associate was HK\$20,504,000 as disclosed in Note 17. In the opinion of the directors, reversal of the impairment loss is considered not appropriate after review of the recoverable amounts of the associate as at balance sheet date.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31st December, 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
<i>Turnover</i>						
External sales	1,943,494	15,766	4,170	739	–	1,964,169
Inter-segment sales	–	1,200	–	–	(1,200)	–
Total turnover	<u>1,943,494</u>	<u>16,966</u>	<u>4,170</u>	<u>739</u>	<u>(1,200)</u>	<u>1,964,169</u>

Inter-segment sales are charged at prevailing market rates.

Results

Segment result	<u>65,862</u>	<u>23,316</u>	<u>8,109</u>	<u>72</u>	<u>–</u>	<u>97,359</u>
Interest income from bank deposits						2,282
Unallocated other income						761
Unallocated corporate expenses						(12,514)
Finance costs						(9,856)
Share of profit of associates						<u>3,257</u>
Profit before taxation						81,289
Income tax expense						<u>(11,881)</u>
Profit for the year						<u>69,408</u>

At 31st December, 2003

	Sales of chemicals and metals HK\$'000	Property investment HK\$'000	Security investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
<i>Assets</i>					
Segment assets	323,033	268,633	205,375	130	797,171
Interests in associates	453	–	–	27,223	27,676
Unallocated corporate assets					<u>124,481</u>
Consolidated total assets					<u>949,328</u>
<i>Liabilities</i>					
Segment liabilities	32,360	24,398	434	13	57,205
Unallocated corporate liabilities					<u>276,991</u>
Consolidated total liabilities					<u>334,196</u>

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments (continued)***Other information*

	Sales of chemicals and metals HK\$'000	Property investment HK\$'000	Security investment HK\$'000	Other activities HK\$'000	Consolidated HK\$'000
Capital expenditure	426	203	286	1,264	2,179
Depreciation	982	460	515	778	2,735

For the year ended 31st December, 2004

	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
<i>Turnover</i>						
External sales	1,751,046	14,449	4,141	998	–	1,770,634
Inter-segment sales	–	1,239	–	–	(1,239)	–
Total turnover	<u>1,751,046</u>	<u>15,688</u>	<u>4,141</u>	<u>998</u>	<u>(1,239)</u>	<u>1,770,634</u>

Inter-segment sales are charged at prevailing market rates.

Results

Segment result	<u>52,425</u>	<u>20,539</u>	<u>3,528</u>	<u>86</u>	<u>–</u>	76,578
Interest income from bank deposits						2,631
Unallocated other income						2,600
Unallocated corporate expenses						(11,430)
Finance costs						(4,052)
Share of loss of associates						<u>(4,356)</u>
Profit before taxation						61,971
Income tax expense						<u>(9,300)</u>
Profit for the year						<u>52,671</u>

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

At 31st December, 2004

	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Assets</i>					
Segment assets	326,479	262,980	184,315	147	773,921
Interests in associates	453	–	–	24,485	24,938
Unallocated corporate assets					188,903
Consolidated total assets					987,762
<i>Liabilities</i>					
Segment liabilities	21,879	6,702	263	19	28,863
Unallocated corporate liabilities					328,708
Consolidated total liabilities					357,571
<i>Other information</i>					
	Sales of chemicals and metals <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Security investment <i>HK\$'000</i>	Other activities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	2,056	447	–	904	3,407
Depreciation	908	896	–	361	2,165

Geographical segments

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

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

For the year ended 31st December, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Geographical segments (continued)**

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

	Revenue by geographical market		Contribution to profit before taxation	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	1,443,806	1,216,380	52,994	42,130
Taiwan	246,668	265,323	5,606	4,721
Elsewhere in the PRC	139,635	127,767	26,959	22,476
Others	134,060	161,164	11,800	7,251
	<u>1,964,169</u>	<u>1,770,634</u>	<u>97,359</u>	<u>76,578</u>
Interest income from bank deposits			2,282	2,631
Unallocated other income			761	2,600
Unallocated corporate expenses			(12,514)	(11,430)
Finance costs			(9,856)	(4,052)
Share of profit (loss) of associates			3,257	(4,356)
Profit before taxation			<u>81,289</u>	<u>61,971</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	At 31.12.2005 HK\$'000	At 31.12.2004 HK\$'000	Year ended 31.12.2005 HK\$'000	Year ended 31.12.2004 HK\$'000
Hong Kong	385,858	399,269	2,079	2,168
Taiwan	39,176	47,743	16	6
Elsewhere in the PRC	285,616	282,319	84	446
Others	210,965	233,258	-	787
	<u>921,615</u>	<u>962,589</u>	<u>2,179</u>	<u>3,407</u>

6. OTHER INCOME

Other income comprises:

	2005 HK\$'000	2004 HK\$'000
Interest income from bank deposits	2,282	2,631
Sundry income	761	2,600
	<u>3,043</u>	<u>5,231</u>

For the year ended 31st December, 2005

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

The tax charge attributable to the Company and its subsidiaries comprises:

Current taxation

Hong Kong Profits Tax

Profits Tax outside Hong Kong

Under(over)provision in prior years

Hong Kong Profits Tax

Profits Tax outside Hong Kong

Deferred taxation (*Note 30*)

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
	7,616	6,565
	1,886	1,558
	<u>9,502</u>	<u>8,123</u>
	1,374	–
	(47)	383
	<u>1,327</u>	<u>383</u>
	10,829	8,506
	1,052	794
	<u>11,881</u>	<u>9,300</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

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

For the year ended 31st December, 2005

8. INCOME TAX EXPENSE (continued)

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

	Hong Kong		Elsewhere in the PRC		Other countries		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Profit (loss) before taxation	59,837	41,031	21,814	19,419	(362)	1,521	81,289	61,971
Application tax rate	17.5%	17.5%	9.9%	9.9%	21.5%	21.5%		
Tax at the domestic income tax rate	10,471	7,180	2,160	1,922	(78)	327	12,553	9,429
Tax effect of expenses not deductible for tax purpose	619	733	344	404	312	93	1,275	1,230
Tax effect of income not taxable for tax purpose	(3,108)	(2,054)	(185)	(227)	-	(140)	(3,293)	(2,421)
Utilisation of previous tax losses not recognised	(982)	(1,143)	-	-	-	-	(982)	(1,143)
Tax effect of unrecognised tax loss	1,214	945	-	-	-	-	1,214	945
Tax effect of share of results of associates	(568)	763	-	-	-	-	(568)	763
Tax effect on different tax rate of operations in other jurisdiction	-	-	-	-	173	7	173	7
Underprovision in prior years	1,374	-	(100)	390	53	(7)	1,327	383
Others	328	205	(146)	(98)	-	-	182	107
Tax charge for the year	9,348	6,629	2,073	2,391	460	280	11,881	9,300

For the year ended 31st December, 2005

9. PROFIT FOR THE YEAR

	2005 HK\$'000	2004 HK\$'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration		
– current year	1,211	949
– underprovision in the prior year	75	162
	<u>1,286</u>	<u>1,111</u>
Impairment loss on trade debtors	1,663	5,667
Loss on disposal of property, plant and equipment	147	–
Rental payments in respect of properties under operating leases	1,836	1,745
Retirement benefits scheme contributions (excluding amounts paid under directors' emoluments)	587	347
Share of tax of associates (included in share of results of associates)	212	60
and after crediting:		
Dividend income from listed investments	2,425	1,510
Gain on disposal of property, plant and equipment	–	374
Gross rental income from investment properties	15,766	14,449
Less: direct operating expenses from investment properties that generated rental income during the year	(38)	(69)
	<u>15,728</u>	<u>14,380</u>
Net foreign exchange gain	1,191	992
Reversal of impairment loss on trade debtors	35	290
	<u>1,191</u>	<u>992</u>

Of the consolidated profit for the year of HK\$69,408,000 (2004: HK\$52,671,000), a profit of HK\$56,008,000 (2004: HK\$90,208,000) has been dealt with in the financial statements of the Company.

For the year ended 31st December, 2005

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2004: 11) directors were as follows:

	Leung Shu Wing	Leung Miu King	Wong Chi Kin	Wong Choi Ying	Yuen Tin Fan, Francis	Wong Kong Chi	Lai Chung Wing, Robert	Chan Wing Lee	Total 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	-	-	-	-	300	150	300	300	1,050
Other emoluments									
Salaries and other benefits	786	228	487	848	-	150	-	-	2,499
Contributions to retirement benefits schemes	-	11	12	12	-	-	-	-	35
Performance related incentive payments (Note)	240	200	108	124	-	-	-	-	672
Total emoluments	1,026	439	607	984	300	300	300	300	4,256

	Leung Shu Wing	Leung Miu King	Wong Chi Kin	Wong Choi Ying	Yuen Tin Fan, Francis	Kwan Hing Hin, Stephen	Wong Kong Chi	Lai Chung Wing, Robert	Chan Wing Lee	Ng Hon Ying	Leung Ding Bong, Ronald	Total 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	-	-	-	-	300	-	150	158	111	150	190	1,059
Other emoluments												
Salaries and other benefits	789	228	325	847	-	-	150	-	-	-	-	2,339
Contributions to retirement benefits schemes	-	11	12	12	-	-	-	-	-	-	-	35
Performance related incentive payments (Note)	180	52	100	187	-	-	-	-	-	-	-	519
Total emoluments	969	291	437	1,046	300	-	300	158	111	150	190	3,952

Note: The performance related incentive payment is based on the Group's performance for each of the two years ended 31st December, 2005.

No directors waived any emoluments in the year ended 31st December, 2004 and 2005.

For the year ended 31st December, 2005

11. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included one director (2004: two directors), details of whose emoluments are included in the amounts disclosed in note 10 above. The emoluments of the remaining highest paid employees, other than directors of the Company, are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries and other benefits	4,122	2,973
Performance related incentive payments	453	377
Retirement benefits scheme contributions	48	40
	<u>4,623</u>	<u>3,390</u>

Their emoluments were within the following bands:

	2005 Number of employees	2004 Number of employees
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	<u>4</u>	<u>2</u>

12. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid in respect of 2005 of 10 cents (2004: 10 cents) per ordinary share	44,550	44,550
Final dividend paid in respect of 2004 of 10 cents (2003: 2.5 cents) per ordinary share	<u>44,550</u>	<u>11,138</u>
	<u>89,100</u>	<u>55,688</u>

The final dividend of 10.0 cents for the year ended 31st December, 2005 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the parent is based on the profit for the year of HK\$67,874,000 (2004: HK\$51,299,000) and on 445,500,000 ordinary shares (2004: 445,500,000 ordinary shares) in issue during the year.

The following table summaries the impact on basic earnings per share as a result of:

	2005 <i>HK cents</i>	2004 <i>HK cents</i>
Reported figures before adjustments	13.81	11.53
Adjustments arising from changes in accounting policies (<i>see Note 3</i>)	<u>1.43</u>	<u>(0.02)</u>
Restated	<u>15.24</u>	<u>11.51</u>

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in either 2005 or 2004.

For the year ended 31st December, 2005

14. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
VALUATION	
At 1st January, 2004	242,430
Increase in fair value	<u>17,896</u>
At 31st December, 2004	260,326
Increase in fair value	9,955
Disposal	<u>(3,720)</u>
At 31st December, 2005	<u>266,561</u>

The Group's investment properties comprise:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Properties held under medium-term leases:		
– in Hong Kong	11,400	9,400
– elsewhere in the PRC	<u>205,920</u>	<u>198,900</u>
	217,320	208,300
Properties held under long leases:		
– elsewhere in the PRC	<u>49,241</u>	<u>52,026</u>
	<u>266,561</u>	<u>260,326</u>

The fair value of the Group's investment properties at 31st December, 2005 has been arrived at on the basis of a valuation carried out on that date by Messrs. Knight Frank, independent qualified professional valuers not connected with the Group. Messrs. Knight Frank are members 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 gain arising from changes in fair value of HK\$9,955,000 which has been credited to the consolidated income statement.

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

For the year ended 31st December, 2005

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST OR VALUATION						
At 1st January, 2004	37,038	14,550	4,115	1,837	2,302	59,842
Currency realignment	425	13	76	–	9	523
Additions	–	2,349	813	86	159	3,407
Disposals	–	(622)	(1,328)	–	(339)	(2,289)
At 31st December, 2004	37,463	16,290	3,676	1,923	2,131	61,483
Currency realignment	(216)	(6)	(12)	–	–	(234)
Additions	–	899	–	63	1,217	2,179
Disposals	–	(2,566)	(161)	(7)	(1,294)	(4,028)
At 31st December, 2005	37,247	14,617	3,503	1,979	2,054	59,400
Comprising:						
At cost	9,447	14,617	3,503	1,979	2,054	31,600
At valuation – 1991	27,800	–	–	–	–	27,800
	37,247	14,617	3,503	1,979	2,054	59,400
DEPRECIATION AND AMORTISATION						
At 1st January, 2004	7,179	12,500	3,631	1,465	2,188	26,963
Currency realignment	86	13	69	–	9	177
Provided for the year	751	878	329	101	106	2,165
Eliminated on disposals	–	(601)	(1,328)	–	(338)	(2,267)
At 31st December, 2004	8,016	12,790	2,701	1,566	1,965	27,038
Currency realignment	(45)	(6)	3	–	–	(48)
Provided for the year	754	1,102	333	113	433	2,735
Eliminated on disposals	–	(2,404)	(161)	(7)	(1,285)	(3,857)
At 31st December, 2005	8,725	11,482	2,876	1,672	1,113	25,868
CARRYING VALUES						
At 31st December, 2005	28,522	3,135	627	307	941	33,532
At 31st December, 2004	29,447	3,500	975	357	166	34,445

For the year ended 31st December, 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the leasehold land and buildings of the Group were revalued at 31st December, 1991. Had all the leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of these properties would have been stated at HK\$19,243,000 (2004: HK\$19,674,000).

	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1st January, 2004	2,691	1,690	4,381
Additions	820	84	904
Disposals	(571)	(154)	(725)
At 31st December, 2004	2,940	1,620	4,560
Additions	108	1,155	1,263
Disposals	(726)	(1,269)	(1,995)
At 31st December, 2005	2,322	1,506	3,828
DEPRECIATION			
At 1st January, 2004	1,827	1,637	3,464
Provided for the year	301	60	361
Eliminated on disposals	(550)	(154)	(704)
At 31st December, 2004	1,578	1,543	3,121
Provided for the year	375	402	777
Eliminated on disposals	(712)	(1,269)	(1,981)
At 31st December, 2005	1,241	676	1,917
CARRYING VALUES			
At 31st December, 2005	1,081	830	1,911
At 31st December, 2004	1,362	77	1,439

The Group's leasehold land and buildings comprise:

	Leasehold land and buildings	
	2005 HK\$'000	2004 HK\$'000
Properties held under medium-term leases: – in Hong Kong	21,232	21,797
Properties held under long leases: – overseas	7,290	7,650
	<u>28,522</u>	<u>29,447</u>

For the year ended 31st December, 2005

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	<u>38,582</u>	<u>38,587</u>

Particulars of the subsidiaries at 31st December, 2005 are set out in note 38.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	27,676	24,938
Goodwill arising on acquisition, net	20,504	20,504
Impairment loss recognised in respect of goodwill arising on acquisition	<u>(20,504)</u>	<u>(20,504)</u>
	<u>27,676</u>	<u>24,938</u>

Particulars of the associates at 31st December, 2005 are as follows:

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

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

The annual financial statements and interim condensed financial statements of Asia Commercial Holdings Limited are made up to 31st March and 30th September each year. For the purpose of applying the equity method of accounting, the interim condensed financial statements of Asia Commercial Holdings Limited for the six months ended 30th September, 2005 have been used, adding up the results from the annual financial statements for year ended 31st March, 2005 and deducting the result of interim condensed financial statements for six months ended 30th September, 2004. The directors of the Company consider that there has been no significant transaction on Asia Commercial Holdings Limited between 30th September, 2005 and 31st December, 2005 that requires further adjustment on the results shared by the Group.

Summarised financial information in respect of the Group's associates is set out below:

	31.12.2005 HK\$'000	31.12.2004 HK\$'000
Total assets	306,546	290,581
Total liabilities	<u>(140,351)</u>	<u>(140,917)</u>
Net assets	<u>166,195</u>	<u>149,664</u>
Group's share of associate's net assets	<u>27,676</u>	<u>24,938</u>

For the year ended 31st December, 2005

17. INTERESTS IN ASSOCIATES *(continued)*

	Year ended 31.12.2005 HK\$'000	Year ended 31.12.2004 HK\$'000
Revenue	<u>278,678</u>	<u>271,347</u>
Profit (loss) for the period	<u>19,734</u>	<u>(26,400)</u>
Group's share of associates' profit (loss) for the period	<u>3,257</u>	<u>(4,356)</u>

18. AVAILABLE-FOR-SALE INVESTMENTS

As at 31st December, 2005, the unlisted investments represent investments in an unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date as the directors of the Company are of the opinion that their fair values cannot be measured reliably.

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

Name of company	Place of registration	Type of investment held	Percentage of registered capital held by the Group
Shenzhen Far East Oil Tools Co., Ltd. <i>(note)</i>	PRC	Registered capital	25%

Note: This company has not been accounted for as associates as, in the opinion of the directors, the Group is not in a position to exercise significant influence over the management of this entity.

For the year ended 31st December, 2005

19. INVESTMENTS IN SECURITIES

THE GROUP

	Investment securities		Other investments		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity securities:						
Listed – Hong Kong	–	–	–	37,081	–	37,081
Listed – overseas	–	3,132	–	18,979	–	22,111
Unlisted	–	–	–	1,170	–	1,170
	–	3,132	–	57,230	–	60,362
Mutual funds:						
Quoted	–	–	–	9,271	–	9,271
Unlisted	–	18,574	–	23,210	–	41,784
	–	18,574	–	32,481	–	51,055
Debt securities:						
Listed – overseas	–	–	–	20,748	–	20,748
Unlisted	–	543	–	19,041	–	19,584
	–	543	–	39,789	–	40,332
Total securities:						
Listed	–	3,132	–	76,808	–	79,940
Unlisted	–	19,117	–	52,692	–	71,809
	–	22,249	–	129,500	–	151,749
Market value of listed securities	–	6,591	–	76,808	–	83,399
Carrying amount analysed for reporting purposes as:						
Non-current	–	22,249	–	1,170	–	23,419
Current	–	–	–	128,330	–	128,330
	–	22,249	–	129,500	–	151,749

20. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured and interest free. The directors of the Company have agreed that no repayment will be demanded within the next twelve months from the balance sheet date, accordingly, the amount are shown as non-current assets and measured at amortised cost at effective interest rate of 3.7% per annum.

The directors consider the amounts due from subsidiaries approximate their fair values.

For the year ended 31st December, 2005

21. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	138	144
Finished goods	145,293	147,188
	<u>145,431</u>	<u>147,332</u>

22. 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\$143,603,000 (2004: HK\$128,800,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	2005 HK\$'000	2004 HK\$'000
0 – 30 days	69,903	69,387
31 – 60 days	46,194	32,645
61 – 90 days	19,960	16,102
91 – 120 days	6,167	7,434
121 -365 days	1,379	3,232
	<u>143,603</u>	<u>128,800</u>

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

The directors consider the debtors, deposits and prepayments approximate their fair values.

23. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Listed securities:		
– Equity securities listed in Hong Kong	33,195	–
– Equity securities listed elsewhere	25,804	–
	<u>58,999</u>	–
Quoted securities:		
– Mutual funds	67,607	–
– Debt securities	49,177	–
	<u>116,784</u>	–
	<u>175,783</u>	–

The fair values of the above investments held for trading are determined based on the quoted market bid prices available on the relevant exchanges or the prevailing market price available in the market.

24. OTHER FINANCIAL ASSETS

Other financial assets include bills receivable, short term bank deposits and bank balances and cash. Short term bank deposits and bank balances and cash comprise cash and deposits held by the Group with an original maturity of three months or less. The directors consider the bills receivable, short term bank deposits and bank balances and cash approximate their fair values.

For the year ended 31st December, 2005

25. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors of HK\$18,778,000 (2004: HK\$12,071,000) which are included in the Group's creditors and accrued charges are as follows:

	2005 HK\$'000	2004 HK\$'000
0 – 30 days	17,376	11,816
31 – 60 days	1,267	203
61 – 90 days	–	6
Over 90 days	135	46
	<u>18,778</u>	<u>12,071</u>

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

The directors consider that the creditors and accrued charges approximate their fair values.

26. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
The bank borrowings, which are due within one year, comprise:				
Bank loans				
– secured (<i>Note</i>)	5,801	6,669	–	–
– unsecured	24,297	23,695	15,000	15,000
Trust receipt and import loans	242,830	271,766	–	–
	<u>272,928</u>	<u>302,130</u>	<u>15,000</u>	<u>15,000</u>

Note: The bank loan was secured by the Group's cash deposits, marketable securities, notes and bonds charged to the bank from time to time.

Over 80% of the carrying amounts of the Group's bank borrowings as at balance sheet date are denominated in the Hong Kong dollars. The bank borrowings of the Company are denominated in Hong Kong dollars only.

All of the Group and the Company's bank borrowings are arranged at floating interest rates, the average interest rates paid for the year were 3.77% (2004: 1.52%) per annum.

The directors consider the bank borrowings approximate their fair values.

27. OTHER FINANCIAL LIABILITIES

Other financial liabilities include bills payable and amounts due to minority shareholders of subsidiaries. Amounts due to minority shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment. The directors consider the bills payable and amounts due to minority shareholders of subsidiaries approximate their fair values.

For the year ended 31st December, 2005

28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.05 each		
Authorised:		
At beginning and at end of the years 2004 and 2005	700,000,000	35,000
Issued and fully paid:		
At beginning and at end of the years 2004 and 2005	445,500,000	22,275

29. RESERVES

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2004	153,728	237,217	390,945
Profit for the year	–	90,208	90,208
Dividends paid (note 12)	–	(55,688)	(55,688)
At 31st December, 2004	153,728	271,737	425,465
At 1st January, 2005	153,728	271,737	425,465
Effect of adoption of HKAS 39	–	(16,213)	(16,213)
As restated	153,728	255,524	409,252
Profit for the year	–	56,008	56,008
Dividends paid (note 12)	–	(89,100)	(89,100)
At 31st December, 2005	153,728	222,432	376,160

The Company's reserves available for distribution to shareholders as at 31st December, 2005 comprised the retained profits of HK\$222,432,000 (2004 as restated: HK\$255,524,000).

30. DEFERRED TAX LIABILITIES

	Revaluation of investment properties HK\$'000	Revaluation of leasehold land and building HK\$'000	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1st January, 2004				
– as originally stated	2,526	2,426	1,150	6,102
– effect of change in accounting policy	(970)	–	–	(970)
– as restated	1,556	–	–	5,132
Charge to income for the year	794	–	–	794
Charge to investment property revaluation reserve	695	–	–	695
At 31st December, 2004	3,045	2,426	1,150	6,621
Charge to income for the year	1,052	–	–	1,052
At 31st December, 2005	4,097	2,426	1,150	7,673

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30. DEFERRED TAX LIABILITIES (continued)

At the balance sheet date, the Group has unused tax losses of approximately HK\$120 million (2004: HK\$119 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such unused tax losses due to the unpredictability of future profit streams. Such tax losses may be carried forward indefinitely.

31. OPERATING LEASE COMMITMENTS

The Group as lessee:

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	1,670	1,625	422	602
In the second to fifth year inclusive	1,497	2,489	242	60
	<u>3,167</u>	<u>4,114</u>	<u>664</u>	<u>662</u>

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

The Group as lessor:

Property rental income earned during the year was HK\$15,766,000 (2004: HK\$14,449,000). The properties held have committed tenants in the range from one to three years.

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	12,590	9,708
In the second to fifth year inclusive	6,955	2,433
	<u>19,545</u>	<u>12,141</u>

32. CONTINGENT LIABILITIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Extent of banking facilities utilised by subsidiaries in respect of which guarantees were given to banks by the Company	<u>258,182</u>	<u>278,435</u>

A subsidiary entered into a consignment agreement with a supplier in respect of the consignment inventories under the custody of the subsidiary. The Company had given a guarantee in respect of the payment and performance of the subsidiary pursuant to the consignment agreement. At 31st December, 2005, the consignment inventories amounted to HK\$2,164,000 (2004: HK\$305,000).

33. CAPITAL COMMITMENTS

	THE GROUP AND THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the financial statements	<u>-</u>	<u>101</u>

For the year ended 31st December, 2005

34. PLEDGE OF ASSETS

At 31st December, 2005, certain buildings with aggregate carrying values of HK\$7,290,000 (2004: HK\$7,650,000) were pledged to banks to secure banking facilities granted to the Group.

35. RETIREMENT BENEFITS SCHEME

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

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

36. RELATED PARTY TRANSACTION

During 2002, the Company entered into an agreement with a subsidiary of an associate of the Group for the software development services to be provided to the Group at the consideration of HK\$755,000. In addition to the aggregate amount of HK\$679,000 paid in previous years, the Company further paid HK\$76,000 during the year for this service.

In addition, the Company also paid system maintenance fees of HK\$177,000 (2004: nil) to the subsidiary of the associate during the year.

The compensation to key management personnel is related to directors' emoluments.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on investments held for trading and liquid funds is limited because majority of the counterparties are banks with creditworthy financial institutions.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Foreign exchange risk

Some of the Group's transactions were conducted in United States dollars, Japanese Yen, Euro, British sterling, Renminbi, Singapore dollars and New Taiwanese dollars. Certain trade debtors, investments held for trading, trade creditors and bank borrowings of the Group are denominated in foreign currencies. The Group will use forward exchange contracts to hedge its foreign currency exposure in trading activities when considered appropriate. Short-term borrowings denominated in foreign currencies other than United States dollars were used to finance assets purchased in the same currencies.

Interest rate risk

The Group obtained financing through bank borrowings. All bank borrowings bear interests on floating rates and matured within one year.

Price risk

The Group's investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The Company is exposed to minimal liquidity risk as the Company closely monitors its cash flow position.

For the year ended 31st December, 2005

38. SUBSIDIARIES

Particulars of the subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/ registered capital held by the Company %	Principal activities
			Ordinary	Non-voting preferred (note)		
Asia Fame International Limited	Hong Kong	Hong Kong	HK\$1,000,000	–	100 *	Manufacturing of electroplating chemicals and solutions
Bright Star Limited	Cook Islands	Hong Kong	US\$1,000	–	100	Investment holding
Charterway Developments Limited	Hong Kong	Hong Kong	HK\$1,000,000	–	100	Property investment
E.P. Resources Limited	Hong Kong	Hong Kong	HK\$10,000	–	100 *	Securities investment and trading
Electrochemical Technologies Limited	Hong Kong	Hong Kong	HK\$2	–	100 *	Securities investment
EngoTech Limited	Hong Kong	Hong Kong	HK\$10,000	–	100 *	Manufacturing of and trading in electroplating chemicals and solutions
Ever Channel Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Global Trade Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Gold Asset Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Jollifair Investments Limited	Hong Kong	Hong Kong	HK\$10,000	–	100 *	Investment holding
Kee Shing (Coins) Limited	Hong Kong	Hong Kong	HK\$1,000,000	–	100 *	Securities trading
Kee Shing Hardware Supplies Limited	Hong Kong	Hong Kong	HK\$800,000	HK\$400,000	100	Trading in stainless steel
Kee Shing Industrial Products Limited	Hong Kong	Hong Kong, Taiwan, South Korea and Thailand	HK\$200	HK\$1,000,000	100 *	Investment holding and trading in electroplating chemicals and metals
Kee Shing International Limited	Hong Kong	Hong Kong	HK\$2	–	100 *	Securities investment
Kee Shing (Investments) Limited	Cook Islands	Hong Kong	US\$1,000	–	100 *	Investment holding
Kee Shing Property Consultants (Shanghai) Co., Ltd.*	Shanghai, PRC	Elsewhere in the PRC	RMB2,902,060	–	100 *	Property management
King Shen Industrial Products Company Limited	Taiwan	Taiwan	NT\$5,000,000	–	70	Trading in electroplating chemicals and metals

For the year ended 31st December, 2005

38. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Principal place of operation	Issued/ registered and fully paid capital		Percentage of issued/ registered capital held by the Company	Principal activities
			Ordinary	Non-voting preferred (note)	%	
Kingsview Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Klendo Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90 *	Property investment
KSIP (Singapore) Pte. Ltd.	Republic of Singapore	Republic of Singapore	S\$1,000,000	–	51	Trading in electroplating chemicals and metal plating products
Pacific Apex International Limited	Hong Kong	Hong Kong	HK\$10,000	–	100 *	Investment holding
Pacific Wide Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Sam Wing International Limited	Hong Kong	Elsewhere in the PRC	HK\$200	HK\$2,160,000	100 *	Trading in chemicals and securities investment
Sam Wing Resources Limited	Hong Kong	Elsewhere in the PRC	HK\$3,000,000	–	55 *	Trading in machinery and equipment
Sure Glory Ventures, Inc.	British Virgin Islands	Australia	US\$2	–	100 *	Investment holding
Topbase Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Top Image Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Trendex Investment Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	100 *	Property investment
Union Channel Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Union Crown Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment
Winbase Properties Limited	Hong Kong	Elsewhere in the PRC	HK\$10,000	–	90	Property investment

* Directly held by the Company

A wholly foreign owned enterprise.

None of the subsidiaries had any loan capital subsisting at 31st December, 2005 or at any time during the year.

Note:

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

At 31st December, 2005

LOCATION	TYPE	LEASE TERM
HONG KONG		
Units A, B, C, D and E on 2nd Floor Kee Shing Centre 74-76 Kimberley Road Tsimshatsui Kowloon Hong Kong	Commercial	Medium-term lease
ELSEWHERE IN THE PEOPLE'S REPUBLIC OF CHINA		
Units 1003, 1005, 1010, 1011, 1012, 1013 on 10th Floor the whole of 11th and 12th Floors and the Multi-function Room on Roof Novel Building 887 Huai Hai Road Central Luwan District Shanghai People's Republic of China	Commercial	Medium-term lease
15th Floor, Shui On Plaza 333 Huai Hai Road Central Luwan District Shanghai People's Republic of China	Commercial	Medium-term lease
5D, 6A, 9F, 12E, 15F, 16A, 17F, 19E, 20A, 22C, 24E, 26A, 26F, 27A, 27F, 28A, 29E, 31E, 33E of Huadua Court, Haihua Garden the Junction of Xiexu Road and Dapu Road Luwan District Shanghai People's Republic of China	Residential	Long lease
10D, 12E, 15C, 17D, 22D, 23D, 25D, 25F, 27C, 27F, 28C, 30D, 33D, 33F of Huali Court Haihua Garden the Junction of Xiexu Road and Dapu Road Luwan District Shanghai People's Republic of China	Residential	Long lease
4B, 7B, 7F, 27C of Huaying Court Haihua Garden the Junction of Xiexu Road and Dapu Road Luwan District Shanghai People's Republic of China	Residential	Long lease
5B, 8B, 9C, 9D, 10D, 11C, 12D, 24C, 33E of Huaxin Court Haihua Garden the Junction of Xiexu Road and Dapu Road Luwan District Shanghai People's Republic of China	Residential	Long lease