Annual Report

2006

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

KEE SHING

CONTENTS

Corporate Information

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*
Chan Wing Lee
Lai Chung Wing, Robert
Wong Chi Kin

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
Calyon

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

	2006	2005	Change
	HK$'000	*HK$'000*	
		(restated)	
INCOME STATEMENTS			
Turnover	**2,240,998**	1,964,169	+14.1%
Profit before Taxation	**90,093**	83,655	+7.7%
Profit Attributable to Shareholders	**77,637**	70,240	+10.5%
Dividends	**62,370**	89,100	–30.0%
BALANCE SHEETS			
Total Assets	**1,230,588**	949,328	+29.6%
Total Borrowings	**489,328**	272,928	+79.3%
Shareholders' Funds of equity holders of the parent company	**611,734**	593,399	+3.1%
CASH FLOW			
Cash Generated from (Used in) Operating Activities	**(122,162)**	57,359	n.a.
Working Capital	**324,837**	265,737	+22.2%
Capital Expenditure	**539**	2,179	–75.3%
Earning Per Share	**17.43¢**	15.77¢	+10.5%
Dividend Per Share	**14.0¢**	20.0¢	–30.0%
Shareholders' Fund Per Share	**1.37**	1.33	+3.0%
Interest Cover	**6.79X**	9.49X	n.a.
Dividend Cover	**1.25X**	0.79X	n.a.

Notes:

1. Earning per share is calculated by dividing profit attributable to equity holders of the parent by 445,500,000 shares in issue during 2006 (2005: 445,500,000 shares).

2. Interest Cover is calculated by dividing profit before tax and interest charges by interest charges.

3. Dividend Cover is calculated by dividing Earning Per Share by Dividend Per Share.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December,

	1997	1998	1999	2000	2001	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	2,096,755	1,826,177	1,223,055	1,053,704	860,920	1,072,821
PROFIT BEFORE TAXATION	31,027	82,050	85,669	48,208	36,524	8,527
TAXATION	(8,447)	(7,540)	(6,810)	(2,946)	(4,640)	(3,884)
PROFIT FOR THE YEAR	22,580	74,510	78,859	45,262	31,884	4,643

CONSOLIDATED BALANCE SHEET

As at 31st December,

	1997	1998	1999	2000	2001	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	760,661	785,566	800,560	795,298	796,002	826,708
TOTAL LIABILITIES	(273,912)	(252,355)	(220,520)	(197,432)	(188,002)	(229,503)
	486,749	533,211	580,040	597,866	608,000	597,205
EQUITY ATTRIBUTABLE TO:						
EQUITY HOLDERS OF THE PARENT	467,162	512,001	563,314	581,166	592,737	581,134
MINORITY INTERESTS	19,587	21,210	16,726	16,700	15,263	16,071
	486,749	533,211	580,040	597,866	608,000	597,205

Notes:

1) The above financial summary for 1997 has not been adjusted to take into account the effect on the adoption of SSAP 24 "Accounting for investments in securities" issued by 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 certain HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005.

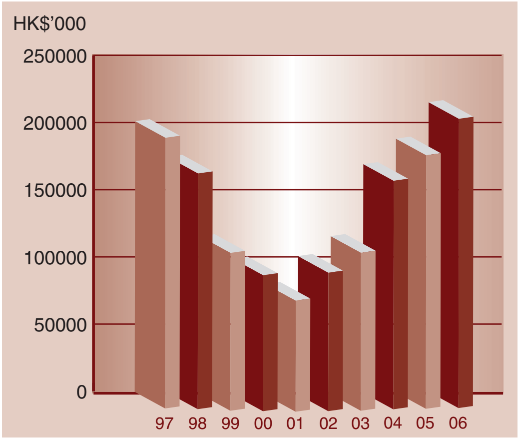
4) The above financial summary prior to 2004 has not been adjusted to take into account the effect on the adoption of HKAS 39 (Amendment) "The fair value option" which is effective for annual periods beginning on or after 1st January, 2006.

KEY DATA

	1997	1998	1999	2000	2001	2002
Interest cover (times)	5.04	9.61	13.70	4.83	7.21	2.95
Dividends per share (cents)	4.00	6.00	6.50	5.00	2.50	2.50
Earnings per share (cents)	4.50	15.60	17.50	9.80	6.90	0.93
Net assets per share (HK$)	1.05	1.15	1.26	1.30	1.33	1.30
Gearing	0.27	0.35	0.25	0.25	0.23	0.31

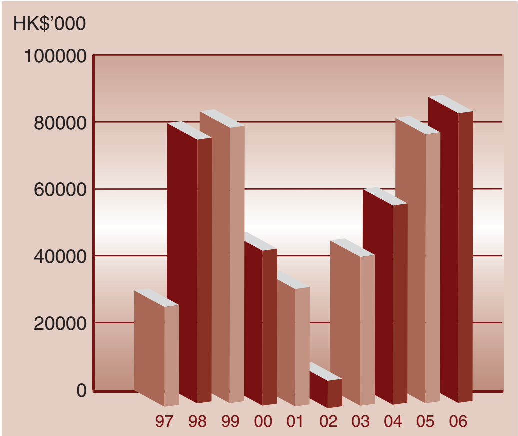
2003	2004	2005	**2006**
HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
1,224,230	1,770,634	1,964,169	**2,240,998**
46,300	61,971	83,655	**90.099**
(6,029)	(9,300)	(11,881)	**(9,923)**
40,271	52,671	71,774	**80,176**

Turnover

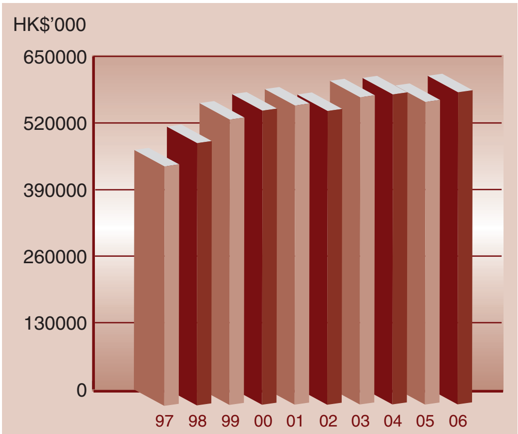


2003	2004	2005	**2006**
HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
934,586	987,762	949,328	**1,230,588**
(310,219)	(357,571)	(334,196)	**(596,123)**
624,367	630,191	615,132	**634,465**
606,775	610,417	593,399	**611,734**
17,592	19,774	21,733	**22,731**
624,367	630,191	615,132	**634,465**

Net Profit



Equity



2003	2004	2005	**2006**
13.17	16.29	9.49	**6.79**
3.00	12.50	20.00	**14.00**
8.69	11.51	15.77	**17.43**
1.36	1.37	1.33	**1.37**
0.40	0.49	0.46	**0.80**

The Kee Shing Group's sales rose by 14.1% from previous year to HK$2,241.0 million as prices of most metals that the Group traded reached record highs in 2006. Attributable profit to shareholders was reported at HK$77.6 million, representing an increase of 10.5% when compared with HK$70.2 million for the fiscal year ended 31st December, 2005.

Interim dividend of 4.0 Hong Kong cents per ordinary share was declared on 20th September, 2006. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board of Directors recommended a final dividend for 2006 of 6 Hong Kong cents per ordinary share (2005: 10.0 Hong Kong cents per ordinary share) payable on or before 21st June, 2007 to shareholders whose names appear on the register of members of the Company as 25th May, 2007.

BUSINESS REVIEW

The continuation of strong metal commodities prices contributed to the good performance in 2006. However, high commodity prices generate a high working capital to run the business. At the year end, the Group's bank borrowing rose by 79.3% over the fiscal year end of previous year. Inventories as at 31st December, 2006 advanced almost double over that as at 31st December, 2005. Despite of rising working capital, return generated from shareholders' equity for the year was 12.7%, reflecting the fifth consecutive years' increase in return on equity.

Trading segment remained the core earnings generator of the Group. Total revenue and operation profit before interests and tax grew by 14.2% and 8.8% annually to HK$ 2,219.6 million and HK$ 71.7 million respectively. The exceptionally strong commodity prices, however, discouraged demand from end-users in China as well as other South-east Asian region. Throughout the year, many factories either closed or sold their business because of unmanageable rally in production cost. Over-stock situation persisted in China market and resulted many suppliers to sell goods at discount. In order to strengthen our position among other suppliers, the management put enormous efforts to review and control risks in inventory, receivable and financing so as to ensure optimal cash-flow cycle and retain our sound financial position for unprecedented volatility in commodity market throughout the year.

Rental income generated from property segment remained stable. High demand for office spaces in Shanghai and Hong Kong has pushed market rents higher. Occupancy rate of the Group's office spaces attained almost 100% throughout the year. The impact of the implementation of stepping-up new measures by the Chinese central government in cooling down China property market greatly affected commercial residential properties in Shanghai. Residential property transaction volumes and prices both fell. The valuation of the portfolio of the Group's investment properties as at 31st December, 2006, thereby, only rose by HK$ 3.52 million when compared with an increase of the valuation by HK$ 9.96 million valued as at 31st December, 2005.

The Group's security portfolio reported a satisfactory result mainly due to a solid performance in global equity markets in 2006. A segment profit of HK$ 17.2 million was recorded for the year of 2006, when compared with HK$ 10.5 million posted in previous year. On 25th October, 2006, the Group announced the disposal of its entire interest of 16.48% of Asia Commercial Holdings Ltd. at a consideration of HK$ 37.4 million and the cash settlement was satisfied on 27th October, 2006.

CORPORATE GOVERNANCE

The Group is committed to adopt governance principles and standards to safeguard the interests of shareholders and stakeholders. The Group's Corporate Governance Report is set out on page 11 to page 17 in this Annual Report.

OUTLOOK

It is undoubtedly that 2006 was a challenging year, including high energy and commodity prices, uncertainties in geopolitical conflicts, competitive pressures from different rivals in China, increasing scrutiny and regulations among governments and regulatory bodies, squeezing profits arising from globalization, and depreciation of asset value denominated in U.S. dollar and Hong Kong Dollar. However, the Group confronted these challenges and experienced a good result in 2006, primarily because of cautious approach in balancing different kinds of risks faced to the Group day to day. All staff in the Group also made substantial efforts and contributions to oversee the Group's business, strategies, internal controls and human development throughout the year. Again, I would like to take this opportunity to thank their commitment.

In the year of 2007, global economic outlook remains positive and China's economic growth is expected to grow strong continuously. Increasing risks with rising energy and commodity prices and uncertainties in geopolitical tension will still cloud the business operating environment. With the continued commitments of our staff, the support of the management team, shareholders, suppliers, customers and bankers, we are confident to focus our expertise and take opportunity to grow our business towards the year 2007.

LEUNG SHU WING
Chairman
Hong Kong, 12th April, 2007

OPERATION REVIEW

Trading Division

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

	Turnover		Segment Results	
For the Year ended:	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Electroplating Materials and Chemicals	**2,060,093**	1,759,158	**56,412**	52,156
Paint and Coating Chemicals	**93,880**	124,406	**5,449**	6,271
Stainless Steel	**65,647**	59,930	**9,796**	7,436
Total	**2,219,620**	1,943,494	**71,657**	65,863

Electroplating Materials and Chemicals

The electroplating material segments reported revenues of HK$ 2,060.1 million in 2006, up 17.1% compared with HK$ 1,759.2 million in fiscal 2005. Despite lower sales quantities during the year, the record-high revenues were principally attributable to strong metal prices. During the year, highly volatile metal prices over a short period of time had a significant impact to the demand in electroplating industry. As a result of reducing buying interests among customers in anticipation of rising prices, overall performance was dimmed by de-stocking effect in China and South-East Asian region. Decreasing physical demand put strong pressure on margin as competitors relentlessly sold goods at discount for the need of working capital. This phenomenon continued in the first quarter of 2007.

Precious Metal Products

In 2006, higher gold and silver prices continued. Demand of gold products in China region was stable while demand in Singapore market grew robustly due to absence of Chinese competitors. Overall demand in silver products shrunk in traditional electroplating industry as many silver-plating factories decided to cease operation when facing persistent upward pressure in production costs. Abundant supply from Chinese silver producers also squeezed the premium at low level throughout the year. With the anticipation of rising prices, many end-customers reduced their size of purchase conservatively. Turnover of electroplating chemicals for jewelry also improved mainly due to strong precious metal prices. Yet, many jewelry factories severely suffered from such upward rally in metal prices and reduced their purchases during the year. Other traditional plating chemicals' consumption fell due to replacement of new technology.

Base Metal Products

Although sales quantities of electroplating nickel fell by one-third when compared with that in 2005, total nickel revenues only dropped slightly by 0.5%, mainly benefited by exceptional strong nickel price. At the end of the year, nickel market price soared more than 2.5 times when compared with price at the beginning of 2006. With concerns of working-capital financing and price volatility, many nickel importers sold nickel products at discount against international market prices. As a result, our profit margin was also squeezed by these competitors. Stockpiling situation endured in the second half year of 2006 and the first quarter of 2007. During the de-stocking period, the record-high cost of nickel forced many customers to be conservative with their inventories or even changed to other materials for application instead. Electroplating copper demand was stronger than last year as economic activity picked up in many countries. Amid significant fall in copper market prices during the last quarter of 2006, we unavoidably suffered losses on cost of inventory and profit margin in this product dropped by 36% in 2006. With anticipation of continuous global economic growth, copper demand remains strong in the first quarter of 2007.

Total inventory level as at 31st December, 2006 doubled to HK$ 274.7 million when compared with HK$ 129.7 million as at 31st December, 2005. The advances in metal prices, in particular of nickel price at the year end, significant boosted up the cost of inventory we purchased at the year end. Such abnormal high level of inventory cost over a short period of time not only posed higher cost in financing but also increased risk in cost of inventory at the year end. As greater price volatility in metals was demonstrated at the beginning of 2007, we have purposely reduced the size of purchase in line with shrinking demand in local markets and conservatively controlled the inventory at affordable level. Longer-than-usual receivable turnover was also reported as at 31st December, 2006. Cautiously monitoring payment receivables were one of our key objectives and zero uncollectible invoices payment was recorded in 2006.

Paint and Coating Chemicals

Performance of specialty chemical market in China was unsatisfactory in 2006. Annual revenue dropped by 24.5% while gross profit fell by 20.7%. Global chemicals prices soared in the first half year of 2006 mainly because of increases in global raw material costs such as oil and natural gas based products. In contrary, China's local chemical suppliers, who suffered from growing stockpiling and slow sales, continued to sell goods at discount. With the implementation by the Chinese government's macro-economic control and rectification measures on safety and environmental production problem, demand in many local chemical factories shrunk significantly, especially those located in the Pearl River Delta area. Towards the end of the year, except methanol, global raw material costs in making specialty chemicals stabilized and same as international prices. However, Chinese local stockpiling situation persisted and discounted sales were common. Average selling price of one major trading product in China fell 26.2% compared with average selling price in 2005. In 2006, we managed to service mainly on foreign customers who concerned more on quality and services. Also we explored new users on high-ended chemical products.

Stainless Steel

Segment of stainless steel trading recorded a distinguished performance both in revenue and profitability due to strong recovery in stainless steel industry since the latter part of 2005. Stainless steel base prices advanced throughout the year. The strong recovery in stainless steel market in 2006 resulted from alarming constraints of elements in production of stainless steel including nickel, ferrochrome and molybdenum. These constraints limited the stainless steel production volume and caused an unusual tight supply from our suppliers during the year. At the beginning of 2007, tight supply continued and same as rising base prices. During the year, the underlying demands in local market reduced because upward rally in stainless steel prices put strong pressure on production cost among local factories especially watches manufacturers. Yet, our inventory shortage situation remained at the end of 2006 because of delayed shipment among suppliers and this situation has not been changed in the beginning of 2007.

Property Investment Division

Total rental income rose by 7.8% to HK$17.0 million in fiscal year of 2006 when compared with HK$ 15.8 million in 2005.

Occupancy rate for Hong Kong offices was 100% in 2006 when compared with an average rate of 89.3% in 2005. Demand of Grade "B" office spaces was strong throughout the year. Rather than seeking for quality buildings, many tenants searched for suitable rental prices in this segment after rental in Grade "A" offices hit record high during the second half year of 2006. Average market rental remained firm and stable. Selling prices also soared in this segment during the year. We credited HK$2.53 million, or an increase of 22.2%, on revaluation of Hong Kong properties after revalued by appointed surveyor as at 31st December, 2006.

Average occupancy rate of Shanghai offices in 2006 was 99.9% (2005: 100%). Office rentals continued to grow in Shanghai due to rapid expansion of business among small and multi-national companies. Supply of office spaces in Shanghai downtown area was still very limited. Vacancy rate of Shanghai offices in prime location fell to almost zero since the second half year of 2006. Average selling price of Grade "A" offices also rose in 2006 due to rising gross rental yield. We credited HK$ 3.01 million on revaluation of our Shanghai office properties as at 31st December, 2006.

Average occupancy rate of Shanghai residential properties in 2006 was at 93.3% while 81.3% was recorded in 2005. As at 31st December, 2006, occupancy rate was at 97.8%. Shanghai residential property market was clamped down by the implementation of Chinese government administrative measures to curb speculative activities. Following market turmoil and slack transaction volume, residential prices of Shanghai stabilized towards the end of the year. Demand in rental market recovered in the second half year as resilient economic growth in Shanghai continued to draw talents and professionals from different Chinese provinces and overseas countries to seek for opportunities. As at 31st December, 2006, we debited HK$ 2.12 million on revaluation of Shanghai residential properties after revalued by appointed surveyor.

Singapore rental income remained stable during the year. The rise in rental income was contributed from appreciation of Singapore dollars during the year. As at 31st December, 2006, we credited HK$ 101,000 on revaluation of Singapore properties after revalued by appointed surveyor.

Securities Investment Division

An analysis of the Group's securities portfolio, current and non-current, by type of securities as at 31st December, 2006 is as below:

Market Value as at	31/12/2006	31/12/2005	Diff %
Investment held for trading (in HKD'000)	**179,833**	175,783	+2.3%
Available-for-sale Investments (in HKD'000)	**14,258**	29,299	-51.3%

Distribution of Securities in Investment held for trading (in HKD'000):

Equities – Hong Kong	**34,406**	33,195	+3.6%
Equities – Overseas	**31,478**	25,804	+22.0%
Mutual Funds – Quoted	**113,949**	116,784	-2.4%

Although the world was experienced with military conflicts, sharp rising in energy and commodities prices, and collapse of large hedge funds, overall equities markets performed remarkably in 2006. Global economy was in resilient in 2006 with inflation contained and the growth of major economies hovering around the trend. US dollar continued to show volatility throughout the year. Performance of equities outpaced bonds as multi-national companies posted attractive earnings reports quarter after quarter. Loose liquidity conditions still existed in global markets, resulted a decline in volatility in foreign exchange market and other assets classes in the second half year of 2006.

In 2006, we unloaded some weights in bond-related securities and took profits from selling equity-related securities in view of rally in global equity markets. At the end of the year, a gain arising from changes in fair value of investments held for trading of HK$ 14.1 million was recorded. Also, a disposal of a long term investment in an unlisted Chinese equity gained HK$ 585,000. Dividend income was reported at HK$ 2.5 million in 2006 (2005: HK$ 2.4 million). Interest income generated from the portfolio was reported at HK$ 1.5 million whereas HK$ 1.7 million was posted in 2005.

Outlook of global financial markets remained positive with expectation of modest growth in global economies, tame inflation and buoyed employment figures. It is expected that financial markets will experience another year of volatility in 2007, with concern of impact on unwinding of carry trade, housing slump in the U.S., liquidity tightening across global central banks. Yet, major economic fundamentals around the globe have not changed. We will cautiously re-allocate assets in the portfolio so as to diversify the risk of volatility during the year of 2007.

EMPLOYEES

Total number of staff reduced by 2 to 83 persons as at 31st December, 2006. Employee turnover rate during the year was in acceptable level and staff turnover group concentrated at young staff under 35 years old with less experience.

Staff cost increased by 1.08% in the fiscal year of 2006 to HK$ 27.9 million when compared to HK$ 27.6 million in 2005. The rise in employees' salaries and other benefits was in line with market inflation. In accordance with HKAS 19 Employment Benefits, additional cost of long service payment obligation amounting HK$ 88,000 was included and total long service payments obligation of the Group was at HK$ 2.16 million as of 31st December, 2006.

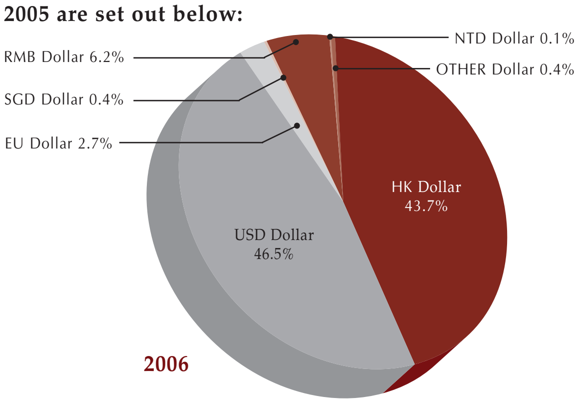
In 2007, the management will continue to encourage staff to continue his/her further studies. Also, the company will introduce different kinds of internal or external courses to staff so as to enhance staff's knowledge and to upgrade operation efficiency.

FINANCIAL RESOURCES AND LIQUIDITY

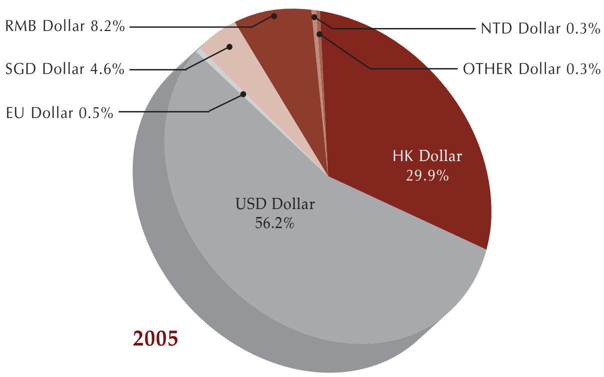
For the fiscal year of 2006, cash outflow from operation jumped to HK$ 122.2 million. Due to exceptional strong metal prices in the fourth quarter of 2006, additional bank borrowings were required to finance inventory and receivables. Equity attributable to equity holders of the parent company as at 31st December, 2006 advanced to HK$ 611.7 million after the Group distributed dividend totaling HK$ 62.4 million during the year. Return on equity ratio for 2006 rose to 12.7% when compared with 11.8% for 2005.

Primarily due to the rise in inventory cost and trade receivable, working capital as 31st December, 2006 rose to HK$ 324.8 million when compared with HK$ 265.7 million as at 31st December, 2005. Inventory as at 31st December, 2006 advanced to HK$ 289.9 million, representing an increase of 99.4% when compared with HK$145.4 million as at 31st December, 2005. Cost of electroplating nickel comprised major portion of the inventory. Nickel metal began in 2006 with an international price of US$13,786 per metric ton and ended with a price of US$34,025 per metric ton. Trade debtor amounted to HK$ 230.2 million as at 31st December, 2006, representing a rise of 60.3% when compared with HK$143.6 million as at 31st December, 2005. Trade debtor turnover cycle reported at 37.8 days as at 31st December, 2006 (as at 31st December, 2005: 27.0 days). The rise in trade debtor turnover days were partly due to abnormal increase in trade receivable at the year end due to the rise in metal price and partly because of longer payment by customers under current tough operating environment.

An analysis of cash and short term bank deposits by currencies as at 31st December, 2006 and 31st December, 2005 are set out below:



2006

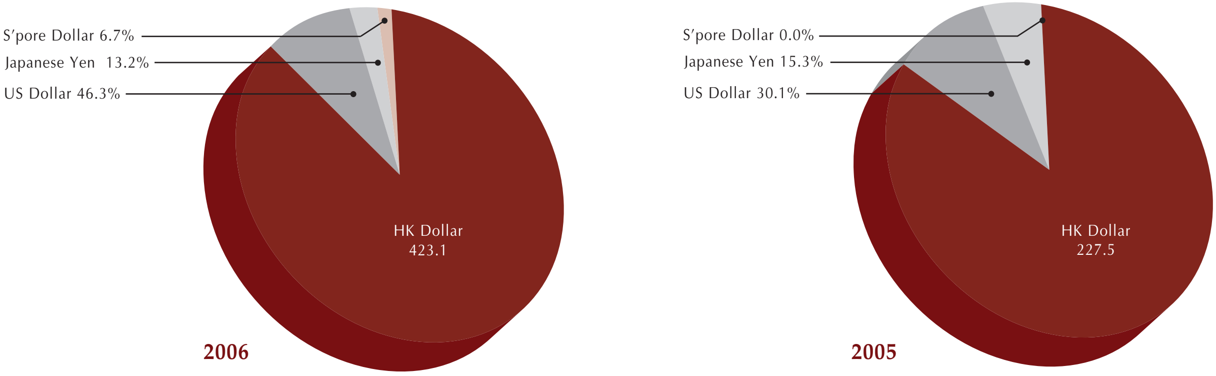


2005

The Group recorded cash balance of HK$171.2 million as at 31st December, 2006, a rise of HK$ 71.0 million when compared with HK$100.1 million as at 31st December, 2005. A negative net cash at the fiscal year end widened to HK$ 318.2 million (as at 31st December, 2005: negative HK$ 172.8 million). The expanded negative net cash was partly due to larger outflow of cash dividend distributed in the past 2 years and partly due to an abnormal increase in bank borrowing at the year end to finance the rise in inventory and trade receivable. Capital expenditure only amounted to HK$ 538,548 during the year of 2006.

DEBT STRUCTURE

An analysis on bank borrowings by currencies as at 31st December, 2006 and 31st December, 2005 are set out below:



All borrowings were in form of Money Market bank loans, Overdraft and Trust Receipt for the fiscal year ended 31st December, 2006. Average lending tenor for Trust Receipt in financing trading facilities was about 54 days during the year, 2 days shorter than 56 days in fiscal year of 2005. Money-Market bank loans were either used to finance additional stocks held or securities assets purchased in the same foreign currencies. Average interest rate charged to trust receipt borrowings was 5.16% in 2006 when compared with 3.86% in 2005. Average total bank borrowing interest rate charged at 5.04% in 2006 whereas 3.77% was charged in 2005. Total finance cost during the year amounted to HK$ 15.6 million (2005: HK$ 9.9 million).

Total bank borrowings as at 31st December, 2006 was HK$ 489.3 million (as at 31st December, 2005: HK$ 272.9 million). As at 31st December, 2006, total banking facilities granted by lenders to the Group amounted to HK$ 727.9 million and the average banking utilization rate was 45.3%. Debt to equities ratio rose to 0.80: 1 as at the fiscal year ended 31st December, 2006 when compared with 0.46:1 as at the year ended 31st December, 2005.

FOREIGN CURRENCY RISK

The Group's monetary transactions were conducted in Hong Kong Dollars, United Stated Dollars, Japanese Yen, Euro, Australian Dollars, British Sterling, Reminbi, 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, 2006, there were US$1,500,000 forward contracts of New Taiwan Dollar outstanding to be expired on January and February of 2007. 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 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 28th May 2007 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, 2006.

In accordance with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") contained in Appendix 10 of the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. The Group has also adopted the securities dealing policy setting out the Company's policy and rules governing the dealings in the securities of the Company by all employees of the Company and its subsidiaries and a confidentiality policy setting out the 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, 2006, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's codes of conduct regarding Directors' securities transactions.

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, 2006, the Board comprised four non-executive directors and four executive directors. The Chairman is an executive director. All of them served a full-year in office during 2006. 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 Listing Rule 3.13. They are free from any business relationship or other circumstances that could materially interfere with the exercise of independent or objective judgment. Also, the three independent non-executive directors, representing over one-third of the Board, constitute a proper balance of power maintaining for full and effective control of both the Group and its executive management. The names and biographical details of each directors are set out on page 18 of the annual report.

The Group has formed strong management teams in its business areas, comprising both executive directors and senior officers, to develop and exercise both operational and non-operational duties. The team members have ranges of skills, knowledge and experiences necessary to govern the Group's operation. All management team members are required to report directly to the Managing Director. They are also required to meet with the Chairman, Managing Directors and other Board's executive directors on a regular 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 names and biographical details of each senior officers are set out on page 19 of the annual report.

Chairman and Managing Director

The Chairman of the Board, Mr. Leung Shu Wing, leads the Board and facilitates the business of the Board and individual director effectiveness, both inside and outside the boardroom. The Chairman plays a key role in the development of the Group's strategy and in ensuring management succession. He also ensures that the principles and processes of the Board are maintained. Throughout the year, he encourages constructive discussion, criticism or debate conducted in the Board and, where appropriate, any matters proposed by other directors for inclusion in the agenda. In conjunction with the Company Secretary, the Chairman sets agenda for meeting of the Board and ensures all directors receiving adequate, complete and reliable information in a timely manner. The Chairman commits to present shareholders' views to the Board and to represent the Board to communicate with shareholders. He also facilitates the relationship among the Board members and ensures the effective contribution of the non-executive directors to the Board.

The Managing Director, Miss Leung Miu King, Marina, is the daughter of the Chairman. She is responsible to lead executive management of the Group. The Managing Director commits 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 Group.

Responsibilities

Every director commits to give sufficient time and attention to the affairs of the Company. Directors also demonstrate their understanding and commit to high standards of governance. Executive directors bring their perspectives to the Board through their deep understanding of the Group's business. Non-executive directors contribute their own skill and experience, understanding of local and global economics, knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding a suitable development programme for all directors of continuous professional development to develop and refresh their knowledge and skills.

The Board approved the Schedules of Matters Reserved by the Board at 10th August 2005. It set out the Board's duties and activities and the matters reserved for its consideration and decision. The schedule includes 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.

The Board also approved the defined role of the Chairman and the Chief Executive Office/ Manager Director as at 10th August, 2005. Under the approved statement, the Board has delegated its authority to the Chief Executive Office/ Manager Director, including the limits of authority that the Chief Executive Office/ Manager Director can execute. The Chief Executive Office/ Manager Director remains accountable to the Board within the limits of delegated authority. The Board shall monitor the performance of the Chief Executive Office/ Manager Director and to ensure whether the Board's objective has been attained.

The Board and its Committees may seek advice from independent professional advice whenever it is considered appropriate. Individual Directors, with the consent of the Chairman of the Board and/or the Chairman of the Audit Committee, may seek independent professional advice on the matter connected with the Company to discharge of his/her responsibility, at the Group's expense. No director exercised his/her right during the year.

Meetings

The Board met six times during the year and the majority of the directors participated in each meeting. Attendance of each director at these meetings is shown in the table below:

	Attended in person	Apologies given
Executive Directors:		
Mr. Leung Shu Wing *(Chairman)*	6	–
Miss. Leung Miu King, Marina *(Managing Director)*	6	–
Mr. Wong Chi Kin	6	–
Mr. Wong Choi Ying *(Company Secretary)*	6	–
Non-Executive Directors:		
Mr. Yuen Tin Fan, Francis	4	2
Mr. Wong Kong Chi *(Independent)*	6	–
Mr. Lai Chung Wing, Robert *(Independent)*	6	–
Mr. Chan Wing Lee *(Independent)*	6	–

The Company Secretary, Mr. Wong Choi Ying, kept detailed minutes of each meeting including any dissenting views expressed by the directors. He is also responsible to ensure the Board procedures are complied with and advises the Board on governance matters. All agenda, relevant materials and document are sent out at least 3 days prior the intended date before the Board or the Committee meeting. The Company Secretary sent the draft version of the Board and Committee minutes to all directors for comments within reasonable time after the Board or the Committee and final versions of the Board and Committee minutes are also sent to all directors for record. Moreover, he 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. At least one third of every director, including those appointed for a specific term, retire at each Annual General Meeting pursuant to the Company's existing Articles of Association. All executive director of the Company are not appointed for a fixed term but must submit themselves to shareholders for re-election after three years.

Each new director, executive or non-executive, commits to undertake an induction programme 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 2006, no new Director was appointed.

4.2 REMUNERATION COMMITTEE

The Remuneration Committee met once during the year. Its members are Mr. Wong Kong Chi, Mr. Lai Chung Wing, Robert, Mr. Chan Wing Lee and Mr. Wong Chi Kin. Except Mr. Wong Chi Kin, all three directors are independent non-executive directors. 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 *(Independent)*	1	–
Mr. Lai Chung Wing, Robert *(Independent)*	1	–
Mr. Chan Wing Lee *(Independent)*	1	–
Executive Directors:		
Mr. Wong Chi Kin	1	–

The role of the Committee is to assist the Board 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.

Principles of the Group's remuneration policy

The principles of the Group's remuneration policy are:

- applied to all directors and senior officers for 2006 and, so far as practicable, for subsequent years;
- sufficiently flexible to take account of future changes in the company's business environment and remuneration practice;
- remuneration arrangement be designed to support the business strategy and to align with the interests of the Group's shareholders;
- total reward levels be set at appropriate levels to reflect the competitive market in which the companies and the Group are operating during the year so as to position the best individual for outstanding performance;
- performance-related remuneration be making up at most 55% of the total potential remuneration for executive directors and senior officers;
- performance-related remuneration be subject to the satisfaction of performance over short and long term targets, and the targets be set in the context of the Group's prospects, the prevailing economic environment in which it operates and the relative performance of comparable companies.

Remuneration Rules and Structure

Under the policy's rules, the remuneration package of each executive director and senior management is structured to include:

- an appropriate rate of base compensation for the job of each executive director and senior officers;
- competitive benefit programmes;
- sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the company and taking into account an appropriate balance of risk and reward for the directors and other participants.

The Committee is responsible to determine whether the preset targets are being met based on the relevant information. Annual review of the base compensation is required. The Committee is also required to set annual targets on different performance measures for each executive director and senior officers, approve the maximum level of total annual bonus over monthly salary as well as the shares of contributions against each performance measure. The Committee is allowed to award additional individual discretionary bonuses but total annual bonus including discretionary bonus is subject to a maximum of 55% of total remuneration of each executive director and senior officer.

The work and findings of the Committee were presented to the Board after the meeting. Minutes of the meeting were made available to all the directors' inspection. No Director was involved in deciding his own remuneration, whether determined by the Remuneration Committee, or in the case of non-executive directors, by the Board.

4.3 EXTERNAL AUDITOR

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 2006. Deloitte Touche Tohmatsu has been the Group's appointed external auditor since its public listing in 1989. A letter from Deloitte Touche Tohmatsu dated 22nd March, 2007 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 2006, total fees paid to the Group's external Hong Kong auditors, Deloitte Touche Tohmatsu, amounted to HK$ 1,775,106, of which comprised 19.0% or HK$ 337,473 were fee for non-audit services, including taxation, secretarial and interim review for the period ended 30th June, 2006.

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. The management team provides explanation and information to the Board so as the Board is able to make informed assessment of the financial and other information presented before the Board for approval.

4.4 AUDIT COMMITTEE

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 three times during the year. 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 *(Independent)*	3	–
Mr. Lai Chung Wing, Robert *(Independent)*	3	–
Mr. Chan Wing Lee *(Independent)*	3	–

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.

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. During the year, the Committee reviewed annual results of 2005, interim results of 2006, year 2006 audit planning as well as internal controls and risk areas arising during the course of the year. The Committee also reported 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.

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

4.5 INTERNAL CONTROL

It is the responsibility of the Board to ensure the Group maintains sound and effective internal controls to safeguard the shareholders' interests and assets. An annual review has been conducted in relation to the effectiveness of the system of internal control of the Group and it is the Board's responsibility to report the results to the shareholders. This annual review covers all material controls, including financial, operational and compliance controls and risk management functions.

Since 1999, the Audit Committee has conducted a regular review of the Group's internal control and the effectiveness of the system, as well as evaluated risks associated to the Group. In 2006, the Board has also conducted deeper evaluation to the existing internal control system, its effectiveness, and how to manage the risk under current circumstances.

The Broad has constructed the following assessment procedures to ensure sound and effective internal controls:

Control Environment

This environment provides discipline and structure of the whole internal control system. It includes a strong commitment to integrity and high ethical values. The Board has assessed that:

– Organization structure, job duties and scope of authority is clearly and distinctly defined.
– Authorization procedures on each transaction activity are well written.
– Any over-lapping or over-riding in authority and unclear segregation of duties is reported.
– Effectiveness of existing staff performance evaluation is examined.
– Poor-performed staff was located and a procedure of termination is in place.
– All staff has been encouraged to be participated seminars on business ethics/ code of conduct, job-related seminars and knowledge enhancement courses.
– Each staff is aware of the current regulations and rules (including regulatory bodies and government bodies) that the company should commit to comply with.
– The competence levels of each particular job duties have been acquired among each job titles.

Assess Risk associated to the Operating Environment

The Board has listed out a comprehensive list of risk factors and assessed the likelihood each risk factor existed in the operating environment. These risk factors include operating risks, compliance risks, financial risks and business risks. Risk with uncontrollable feature is also determined in the assessment.

All defined risk factors are evaluated by the Board to determine the significance to the Group's impact and the likelihood of the risk occurs in the operating environment. All risk factors which are classified as having a high likelihood of occurrence with significant impact to the Group are sorted out as Zone A risks. All risk factors which are classified as having a low, likelihood of occurrence with significant impact to the Group are sorted out as Zone B risks. All risk factors which are classified as having a high likelihood of occurrence with low impact to the Group are sorted out as Zone C risks. All risks factors which are classified as having a low likelihood of occurrence with low impact to the Group are sorted out as Zone D risks.

Review the Effectiveness of the Existing Control System

After sorting out and reviewing the classification of all risk factors, the Board has reviewed the control strategies, policies, existing control procedures and risk monitoring process that the Group has taken to deal with these risk factors. The Board also reviews any early mechanism is in place to monitor the risk factors and any control action is properly applied to mitigate the risks.

Review the Communication and Information Control in Reporting any Deficiencies, Weakness and Non-compliance Area

An effective information and communication that identify, capture and report operational, financial and compliance-related information in a form and time frame enable the Group to carry out its responsibilities. This includes communication from the top about the importance of control-related matters and the role of individuals, channels for communicating significant information upstream, and also effective communication with external stakeholders.

The Board assesses regular communication between department and the management team is in place. Periodic review of performance, developments, significant risks, new arising risks, major initiatives and other relevant issues in each department or subsidiary are properly brought attention to the management team or the Board. Regular communication between the Board members and the external auditor is carried out at least every three times a year. The Group also, from time to time, collects information from different sources including business seminars, professional bodies or regulatory bodies to update relevant matters relating to the operating environment.

Monitor the adequacy and quality of the internal control performance

Ongoing and regular monitoring is essential for the internal control system and deficiencies in internal control are properly reported to the appropriate level upstream of the organization, which included senior management, the audit committee or the board. The Board understands the frequency of separate evaluations needed for management during the year to have a reasonable assurance about the effectiveness of the internal control system, is a matter of judgment.

During 2006, the Group has adopted an approach that each person responsible for a particular unit or function shall take the form of self-assessment for the effectiveness of controls for their activities. The management and the Board reviewed the division's assessment, together with the evaluations of other divisions. Any deficiency or new risk arising during the year was raised and presented to the Board for assessment; together with proper control strategy or follow-up action taken was submitted. No significant area of concern which may affect shareholders was raised in 2006. For the fiscal year of 2006, no internal audit department was set up in the Group and the Board believed no such need was required in the year ahead.

4.6 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.

4.7 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 25th May, 2006. 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 68, is the founder of the Group and the Chairman of the company. Mr. Leung has over 42 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 37, 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 56 joined the Group in 1984. He has over 33 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 54 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 27 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 54 is Chairman of Tien Fung Hong Group of companies and an 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 49, 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 59, 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 Seaunion 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 68, 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).

Mr. Chan Yuet Lung, Frankie, aged 52, 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 29 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 48, joined the Group in 1987. He has over 26 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 57, 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 34, 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 42, joined the Group in 1990. He holds a bachelor degree of chemistry from the Chinese University of Hong Kong. He has over 19 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 consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 10.

An interim dividend of 4 cents per share, amounting to HK$17,820,000, was paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 6 cents per share to the shareholders of the Company whose names appear on the register of members on 25th May, 2007, amounting to HK$26,730,000.

INVESTMENT PROPERTIES

All of the investment properties of the Group were revalued at 31st December, 2006, as set out in note 15 to the consolidated financial statements. The net increase in fair value of investment properties, which has been credited directly to profit or loss, amounted to HK$3,517,000.

Particulars of the investment properties of the Group as at 31st December, 2006 are set out on pages 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 16 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2006, the Company's reserves available for distribution to shareholders comprised the retained profits of HK$214,094,000 (2005: HK$233,288,000).

Details of the Company's distributable reserves are set out in note 30 to the consolidated 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. Wong Kong Chi, Lai Chung Wing, Robert and Chan Wing Lee retire by rotation and, being eligible, offer themselves for re-election.

All of the independent non-executive directors proposed for re-election at the forthcoming annual general meeting have service contracts with the Company with a term of two years.

All the executive directors have service contracts with the Company with no fixed term of year, the non-executive director has a service contract 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

At 31st December, 2006, the interests of the directors and their associates in the shares 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"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies ("Model Code"), 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(L)	41.457%
Yuen Tin Fan, Francis	Held by controlled corporation *(Note 1)*	26,984,000(L)	6.057%
	Founder of discretionary trust *(Note 2)*	74,770,000(L)	16.783%
		101,754,000	22.840%
Leung Miu King	Beneficial owner	21,050,000(L)	4.725%
Wong Chi Kin	Beneficial owner	767,000(L)	0.172%
Wong Choi Ying	Beneficial owner	9,500(L)	0.002%
		308,271,575	69.196%

Notes:

1. 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.

2. 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.

The letter "L" denotes a long position in shares.

(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(L)	100%
Kee Shing Industrial Products Limited	Leung Shu Wing	Beneficial owner	7,000(L)	70%
Sam Wing International Limited	Leung Shu Wing	Beneficial owner	19,440(L)	90%

The letter "L" denotes a long position in shares.

Save as disclosed herein, at 31st December, 2006, none of the Directors or chief executive of the Company had any interests or short positions in the share of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

(a) Interests in the Company

As at 31st December, 2006, so far as is known to any directors or chief executive of the Company, other than the interests and short positions of the directors or chief executive of the Company as disclosed above, the following persons had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name of shareholder	Capacity/ Nature of Interest	No. of Shares	Approx. percentage of shareholding
Tien Fung Hong Group Limited	Beneficial owner *(note)*	26,984,000(L)	6.057%
DBMG Trust Company Limited	Trustee of a discretionary trust	74,770,000(L)	16.783%

Note: Mr. Yuen Tin Fan, Francis, a director of the Company, is also a director of and holds 60% equity interest in Tien Fung Hong Group Limited.

The letter "L" denotes a long position in shares.

(b) Interests in other members of the Group

As at 31st December, 2006, so far as is known to any director or chief executive of the Company, the following person (other than the Company, a director or the chief executive of the Company) was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group:

Name of shareholder	Name of member of the Group	Approx. percentage of registered/issued capital of the company
Mr. Chan Chung Wan	Ever Channel Properties Limited	10%
Mr. Chan Chung Wan	Global Trade Properties Limited	10%
Mr. Chan Chung Wan	Gold Asset Properties Limited	10%
Mr. Chan Chung Wan	Kingsview Properties Limited	10%
Mr. Chan Chung Wan	Pacific Wide Properties Limited	10%
Mr. Chan Chung Wan	Top Image Properties Limited	10%
Mr. Chan Chung Wan	Topbase Properties Limited	10%
Mr. Chan Chung Wan	Union Channel Properties Limited	10%
Mr. Chan Chung Wan	Union Crown Properties Limited	10%
Mr. Chan Chung Wan	Winbase Properties Limited	10%
Mr. Zen Wea Foo	Klendo Limited	10%
Mr. Herman Santoso	KSIP (Singapore) Pte. Limited	41%

Save as disclosed herein, as at 31st December, 2006, so far as is known to any directors or chief executive of the Company, no other person (other than a director or the chief executive of the Company) had an interest or short position in Ordinary shares of the Company (the "Shares") and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

CONNECTED TRANSACTION

During the year, the Company issued the guarantee to a supplier pursuant to which the Company absolutely and unconditionally guarantees the punctual payment and performance of obligations by KSIP (Singapore) Pte. Ltd. ("KSIP Singapore"), a non-wholly owned subsidiary of the Company, under the stock consignment agreement for three years. KSIP Singapore is owned as to 41% by Mr. Herman Santoso, a director of KSIP Singapore. By virtue of his shareholding interest and directorship in KSIP Singapore, Mr. Herman Santoso is a connected person of the Company. As Mr. Herman Santoso holds more than 30% of the shareholding interest in KSIP Singapore, KSIP Singapore is an associate of Mr. Herman Santoso and hence a connected person of the Company. Accordingly, the guarantee therefore constitutes a continuing connected transaction of the Company under Chapter 14A of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The maximum cap of the guarantee is US$450,000 for the thirty-six calendar months from the date of execution of the guarantee on 19th April, 2006. Details of the above transaction are set out in the Company's announcement on 19th April, 2006.

The independent non-executive directors confirm that the transaction has been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2006, the aggregate turnover attributable to the Group's five largest customers was less than 30% of the Group's total turnover. The aggregate purchases attributable to the Group's five largest suppliers accounted for 90% of the Group's total purchases and the purchases attributable to the Group's largest supplier was 50% 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 Listing Rules. 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, 2006.

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, 2007

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
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 consolidated financial statements of Kee Shing (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 59 which comprise the consolidated and the Company's balance sheets as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
12th April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000 (restated)
Turnover	5	**2,240,998**	1,964,169
Other income	6	**9,175**	3,043
Changes in inventories of finished goods		**144,405**	(1,895)
Purchases of goods held for resale		**(2,198,165)**	(1,793,878)
Raw materials and consumables used		**(56,580)**	(38,271)
Staff costs		**(27,902)**	(27,605)
Depreciation		**(2,665)**	(2,735)
Other expenses		**(29,813)**	(29,456)
Gain arising from changes in fair value of investments held for trading		**14,135**	5,591
Gain on disposal of available-for-sale investments		**585**	–
Gain on disposal of investment properties		**–**	1,336
Gain arising from changes in fair value of investment properties		**3,517**	9,955
Finance costs	7	**(15,574)**	(9,856)
Share of (loss) profit of associates		**(5,215)**	3,257
Gain on disposal of interest in an associate	8	**13,198**	–
Profit before taxation		**90,099**	83,655
Income tax expense	9	**(9,923)**	(11,881)
Profit for the year	10	**80,176**	71,774
Attributable to:			
Equity holders of the parent		**77,637**	70,240
Minority interests		**2,539**	1,534
		80,176	71,774
Dividends	13	**62,370**	89,100
Earnings per share – basic	14	**HK17.43 cents**	HK15.77 cents

Balance Sheets

At 31st December, 2006

	NOTES	THE GROUP 2006 HK$'000	THE GROUP 2005 HK$'000	THE COMPANY 2006 HK$'000	THE COMPANY 2005 HK$'000 (restated)
Non-current Assets					
Investment properties	15	**273,275**	266,561	**–**	–
Property, plant and equipment	16	**30,300**	33,532	**1,155**	1,911
Investments in subsidiaries	17	**–**	–	**59,008**	52,105
Interests in associates	18	**453**	27,676	**–**	–
Available-for-sale investments	19	**14,258**	29,299	**–**	–
Amounts due from subsidiaries	20	**–**	–	**351,865**	399,655
		318,286	357,068	**412,028**	453,671
Current Assets					
Inventories	21	**289,861**	145,431	**–**	–
Debtors, deposits and prepayments	22	**246,866**	159,900	**615**	389
Bills receivable		**24,270**	10,965	**–**	–
Investments held for trading	23	**179,833**	175,783	**–**	–
Taxation recoverable		**302**	37	**–**	–
Short term bank deposits	24	**86,857**	21,295	**–**	–
Bank balances and cash	24	**84,313**	78,849	**37,502**	1,029
		912,302	592,260	**38,117**	1,418
Current Liabilities					
Creditors and accrued charges	25	**84,077**	38,395	**9,915**	5,168
Amounts due to minority shareholders of subsidiaries	27	**10,408**	11,306	**–**	–
Taxation payable		**3,652**	3,894	**–**	–
Bank borrowings	26	**489,328**	272,928	**25,000**	15,000
Amount due to subsidiaries	28	**–**	–	**25,133**	25,630
		587,465	326,523	**60,048**	45,798
Net Current Assets (Liabilities)		**324,837**	265,737	**(21,931)**	(44,380)
Total Assets Less Current Liabilities		**643,123**	622,805	**390,097**	409,291

At 31st December, 2006

	NOTES	THE GROUP 2006 HK$'000	THE GROUP 2005 HK$'000	THE COMPANY 2006 HK$'000	THE COMPANY 2005 HK$'000 (restated)
Capital and Reserves					
Share capital	29	**22,275**	22,275	**22,275**	22,275
Reserves	30	**589,459**	571,124	**367,822**	387,016
Equity attributable to equity holders of the parent		**611,734**	593,399	**390,097**	409,291
Minority Interests		**22,731**	21,733	**–**	–
Total Equity		**634,465**	615,132	**390,097**	409,291
Non-current Liability					
Deferred tax liabilities	31	**8,658**	7,673	**–**	–
		643,123	622,805	**390,097**	409,291

The financial statements on pages 25 to 59 were approved and authorised for issue by the Board of Directors on 12th April, 2007 and are signed on its behalf by:

Leung Shu Wing
DIRECTOR

Wong Choi Ying
DIRECTOR

Consolidated Statement Of Changes In Equity

For the year ended 31st December, 2006

	Attributable to equity holders of the parent								
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2005									
– as originally stated	22,275	153,728	18,226	–	1,668	418,825	614,722	19,774	634,496
– effect of change in accounting policy *(note 2)*	–	–	–	(60)	–	60	–	–	–
– as restated	22,275	153,728	18,226	(60)	1,668	418,885	614,722	19,774	634,496
Loss on structured bank deposits	–	–	–	(2,366)	–	–	(2,366)	–	(2,366)
Exchange differences arising on translation of overseas operations	–	–	–	–	422	–	422	(201)	221
Share of an associate's movement in reserves	–	–	–	–	(519)	–	(519)	–	(519)
Net expense recognised directly in equity	–	–	–	(2,366)	(97)	–	(2,463)	(201)	(2,664)
Profit for the year	–	–	–	–	–	70,240	70,240	1,534	71,774
Total recognised income and expense for the year	–	–	–	(2,366)	(97)	70,240	67,777	1,333	69,110
Released from winding up of a subsidiary	–	–	–	–	–	–	–	900	900
Dividends paid	–	–	–	–	–	(89,100)	(89,100)	(274)	(89,374)
At 31st December, 2005	22,275	153,728	18,226	(2,426)	1,571	400,025	593,399	21,733	615,132
Gain on structured bank deposits	–	–	–	1,084	–	–	1,084	–	1,084
Exchange differences arising on translation of overseas operations	–	–	–	–	1,310	–	1,310	878	2,188
Share of an associate's movement in reserve	–	–	–	–	(808)	–	(808)	–	(808)
Surplus on revaluation upon transfer from property, plant and equipment to investment properties	–	–	788	–	–	–	788	757	1,545
Deferred tax on surplus on revaluation upon transfer from property, plant and equipment to investment properties	–	–	(174)	–	–	–	(174)	(166)	(340)
Net income recognised directly in equity	–	–	614	1,084	502	–	2,200	1,469	3,669
Profit for the year	–	–	–	–	–	77,637	77,637	2,539	80,176
Released from disposal of an associate	–	–	–	–	868	–	868	–	868
Total recognised income for the year	–	–	614	1,084	1,370	77,637	80,705	4,008	84,713
Distribution from winding up a subsidiary	–	–	–	–	–	–	–	(2,736)	(2,736)
Dividend paid	–	–	–	–	–	(62,370)	(62,370)	(274)	(62,644)
At 31st December, 2006	22,275	153,728	18,840	(1,342)	2,941	415,292	611,734	22,731	634,465

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	**90,099**	83,655
Adjustments for:		
Depreciation	**2,665**	2,735
Gain arising from changes in fair value of investments held for trading	**(14,135)**	(5,591)
Gain on disposal of available-for-sales investments	**(585)**	–
Impairment loss on trade debtors	**3,040**	1,663
Reversal of impairment loss on trade debtors	**(532)**	(35)
Gain on disposal of investment properties	**–**	(1,336)
Gain arising from changes in fair value of investment properties	**(3,517)**	(9,955)
Finance costs	**15,574**	9,856
Share of loss (profit) of associates	**5,215**	(3,257)
Gain on disposal of interest in an associate	**(13,198)**	–
(Gain) loss on disposal of property, plant and equipment	**(178)**	147
Interest income from bank deposits	**(3,611)**	(2,282)
Dividend income	**(2,513)**	(2,425)
Operating cash flows before movements in working capital	**78,324**	73,175
(Increase) decrease in inventories	**(144,184)**	1,893
Increase in debtors, deposits and prepayments	**(88,443)**	(15,197)
(Increase) decrease in bills receivable	**(13,305)**	16,559
Decrease (increase) in investments held for trading	**10,085**	(14,723)
Increase in creditors and accrued charges	**45,209**	6,680
Cash (used in) generated from operations	**(112,314)**	68,387
Hong Kong Profits Tax paid	**(7,984)**	(9,534)
Profits tax outside Hong Kong paid	**(1,864)**	(1,494)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(122,162)**	57,359
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(539)**	(2,179)
Decrease in equity-linked deposits	**–**	768
Interest received from bank deposits	**3,611**	2,282
Dividend received	**2,513**	2,425
Proceeds from disposal of investment properties	**–**	5,056
Proceeds from disposal of property, plant and equipment	**305**	24
Proceeds from disposal of an associate	**35,266**	–
Proceeds from disposal of available-for-sale investments	**16,710**	–
NET CASH FROM INVESTING ACTIVITIES	**57,866**	8,376

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000 (restated)
FINANCING ACTIVITIES		
New bank borrowings raised	**216,400**	–
Repayment of bank borrowings	**–**	(29,202)
Dividends paid	**(62,370)**	(89,100)
Interest paid	**(15,574)**	(9,856)
Dividends paid to minority shareholders of subsidiaries	**(274)**	(274)
Distributions to minority shareholders of subsidiaries	**(2,736)**	–
Amounts repaid to minority shareholders of subsidiaries	**(898)**	(1,094)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**134,548**	(129,526)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**70,252**	(63,791)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**100,144**	163,827
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**774**	108
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**171,170**	100,144
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short term bank deposits	**86,857**	21,295
Bank balances and cash	**84,313**	78,849
	171,170	100,144

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 of the annual report.

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 39.

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

Fair value option

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

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

A debit adjustment of HK$60,000 has been transferred from the Group's retained earnings to investment revaluation reserve as at 1st January, 2005.

For the financial impact on the Group's profit for the year, this change in accounting policy has resulted in a decrease in gain arising from changes in fair value of available-for-sale investments of HK$1,084,000 (2005: an increase in profit of HK$2,366,000).

Financial guarantee contracts

In the current year, the Group has applied HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts" which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

The adoption of HKAS 39 and HKFRS 4 (Amendments) has no material impact on the Group's consolidated financial statements.

Financial guarantee contracts granted to the subsidiaries by the Company

Prior to 1st January, 2006, financial guarantee contracts granted by the Company to its subsidiaries' lenders were not recognised but disclosed as related party transactions and contingent liabilities.

Upon the application of these amendments, a financial guarantee contract granted by the Company to its subsidiaries' lenders and not designated as at fair value through profit or loss is recognised initially at its fair value. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

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

Financial guarantee contracts ***(continued)***

In relation to this change in accounting policy, the Company has applied the transitional provisions in HKAS 39. The fair value of the financial guarantee contracts at the date of grant of HK$9,443,000, representing a deemed capital contribution to the subsidiaries, has been adjusted to the carrying amount of investments in subsidiaries and the financial liability for the financial guarantee contract included in creditors and accrued charges. The cumulative amortisation as at 1st January, 2005 of HK$2,948,000 has been adjusted against retained profits and the financial liability for the financial guarantee contract included in creditors and accrued charges. The net impact on the financial statements as at 1st January, 2005 comprise debit adjustment to investments in subsidiaries of HK$9,443,000 and credit adjustments to creditors and accrued charges of HK$6,495,000 and retained profits of HK$2,948,000 respectively.

The cumulative effect of the application of new HKFRSs to the Company's balance sheet as at 31st December, 2005 is summarised below:

	As at 31st December, 2005 (originally stated)	Adjustment	As at 31st December, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Investments in subsidiaries	38,582	13,523	52,105
Creditors and accrued charges	(2,501)	(2,667)	(5,168)
	36,081	10,856	46,937
Retained Profits	222,432	10,856	233,288

3. POTENTIAL IMPACT ARISING FROM THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January. 2009
3 Effective for annual periods beginning on or after 1st March, 2006.
4 Effective for annual periods beginning on or after 1st May, 2006.
5 Effective for annual periods beginning on or after 1st June, 2006.
6 Effective for annual periods beginning on or after 1st November, 2006.
7 Effective for annual periods beginning on or after 1st March, 2007.
8 Effective for annual periods beginning on or after 1st January, 2008.

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 Hong Kong Financial Reporting Standards 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 and the Hong Kong Companies Ordinances.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts.

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.

An item of investment properties 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 fair value of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, 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.

When an item of property, plant and equipment is transferred to investment property carried at fair value, if the carrying amount is increased, the surplus is credited directly to equity (property revaluation reserve). On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained profits. The transfer from revaluation surplus to retained profits is not made through profit or loss.

Subsidiaries

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

Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an investment in a joint venture.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of impairment loss is treated as revaluation increase.

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.

Investments held for trading

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as investments held for trading, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, deposits, bills receivable, amount due from subsidiaries and bank balances and deposits) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments ***(continued)***

Financial liabilities

Financial liabilities (including creditors, amounts due to minority shareholders of subsidiaries, amount due to subsidiaries and bank borrowings) are measured at amortised cost using the effective interest method at each balance sheet date subsequent to initial recognition.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) in initially recognised as deferred income within creditors and accrued charges. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to the relevant asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

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 the profit as reported in the consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation ***(continued)***

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.

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 consolidated 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lease by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Borrowing costs

Borrowing costs are recognized in profit and loss in the year in which they are incurred.

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 the respective 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

Payments to the Group's Mandatory Provident Fund Scheme and other defined contribution retirement schemes are charged as an expense when employees have rendered service entitling them to the contributions.

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.

Segment information about these businesses is presented below:

For the year ended 31st December, 2006

	Sales of chemicals and metals	Property investment	Security investment	Other activities	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	2,219,620	16,985	2,976	1,417	–	2,240,998
Inter-segment sales	–	1,299	–	–	(1,299)	–
Total turnover	2,219,620	18,284	2,976	1,417	(1,299)	2,240,998

Inter-segment sales are charged at prevailing market rates.

	Sales of chemicals and metals	Property investment	Security investment	Other activities	Eliminations	Consolidated
Results						
Segment result	71,657	17,190	17,203	125	–	106,175
Interest income from bank deposits						3,611
Unallocated other income						3,578
Unallocated corporate expenses						(15,674)
Finance costs						(15,574)
Share of loss of associates	–	–	–	(5,215)	–	(5,215)
Gain on disposal of interest in an associate	–	–	–	13,198	–	13,198
Profit before taxation						90,099
Income tax expense						(9,923)
Profit for the year						80,176

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

At 31st December, 2006

	Sales of chemicals and metals *HK$'000*	Property investment *HK$'000*	Security investment *HK$'000*	Other activities *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	567,621	294,517	194,244	171	1,056,553
Interests in associates	453	–	–	–	453
Unallocated corporate assets					173,582
Consolidated total assets					1,230,588
Liabilities					
Segment liabilities	72,516	11,323	209	29	84,077
Unallocated corporate liabilities					512,046
Consolidated total liabilities					596,123

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	469	20	–	50	539
Depreciation	897	963	–	805	2,665

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments *(continued)*

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*
Turnover						
External sales	1,943,494	15,766	4,170	739	–	1,964,169
Inter-segment sales	–	1,200	–	–	(1,200)	–
Total turnover	1,943,494	16,966	4,170	739	(1,200)	1,964,169

Inter-segment sales are charged at prevailing market rates.

	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*
Results						
Segment result	65,862	23,316	10,475	72	–	99,725
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	–	–	–	3,257	–	3,257
Profit before taxation						83,655
Income tax expense						(11,881)
Profit for the year						71,774

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Business segments ***(continued)***

At 31st December, 2005

	Sales of chemicals and metals *HK$'000*	Property investment *HK$'000*	Security investment *HK$'000*	Other activities *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	323,033	268,633	205,375	130	797,171
Interests in associates	453	–	–	27,223	27,676
Unallocated corporate assets					124,481
Consolidated total assets					949,328
Liabilities					
Segment liabilities	24,856	24,398	434	13	49,701
Unallocated corporate liabilities					284,495
Consolidated total liabilities					334,196

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

Geographical segments

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

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

The following table provides an analysis of the Group's sales by locations of customers:

	Revenue by geographical market **2006** ***HK$'000***	 2005 *HK$'000*
Hong Kong	**1,646,701**	1,443,806
Taiwan	**334,035**	246,668
Elsewhere in the PRC	**110,140**	139,635
Others	**150,122**	134,060
	2,240,998	1,964,169

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments *(continued)*

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 31.12.2006	At 31.12.2005	**Year ended 31.12.2006**	Year ended 31.12.2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**514,046**	314,084	**518**	2,079
Taiwan	**81,143**	38,771	**–**	16
Elsewhere in the PRC	**270,955**	277,762	**21**	84
Others	**192,519**	190,854	**–**	–
	1,058,663	821,471	**539**	2,179

6. OTHER INCOME

Included in other income is interest income from bank deposits and structured bank deposits of HK$3,611,000 (2005: HK$2,282,000).

7. FINANCE COSTS

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

8. GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

On 25th October 2006, Pacific Apex International Limited, a wholly-owned subsidiary of the Company, disposed of its entire 16.48% of the issued share capital in Asia Commercial Holdings Limited, an associate of the Company, to an independent third party, for a cash consideration of HK$37,400,000. The gain on such disposal is recognised in the consolidated income statement.

Details of the disposal are set out in the circular of the Company dated 16th November, 2006.

9. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
The tax charge attributable to the Group comprises:		
Current taxation		
Hong Kong Profits Tax	**7,989**	7,616
Profits Tax outside Hong Kong	**2,189**	1,886
	10,178	9,502
(Over)underprovision in prior years		
Hong Kong Profits Tax	**(261)**	1,374
Profits Tax outside Hong Kong	**(639)**	(47)
	(900)	1,327
	9,278	10,829
Deferred taxation *(Note 31)*	**645**	1,052
	9,923	11,881

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, 2006

9. 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit (loss) before taxation	**68,179**	62,203	**15,328**	21,814	**6,592**	(362)	**90,099**	83,655
Application tax rate	**17.5%**	17.5%	**9.9%**	9.9%	**21.5%**	21.5%		
Tax at the domestic income tax rate	**11,931**	10,885	**1,517**	2,160	**1,417**	(78)	**14,865**	12,967
Tax effect of expenses not deductible for tax purpose	**890**	205	**453**	344	**499**	312	**1,842**	861
Tax effect of income not taxable for tax purpose	**(4,990)**	(3,108)	**(357)**	(185)	**(1,025)**	–	**(6,372)**	(3,293)
Tax effect of utilisation of previous tax losses not recognised	**(950)**	(982)	**–**	–	**–**	–	**(950)**	(982)
Tax effect of unrecognised tax loss	**589**	1,214	**–**	–	**–**	–	**589**	1,214
Tax effect of share of results of associates	**913**	(568)	**–**	–	**–**	–	**913**	(568)
Tax effect on different tax rate of operations in other jurisdiction	**–**	–	**–**	–	**(242)**	173	**(242)**	173
(Over)underprovision in prior years	**(261)**	1,374	**(639)**	(100)	**–**	53	**(900)**	1,327
Others	**56**	328	**122**	(146)	**–**	–	**178**	182
Tax charge for the year	**8,178**	9,348	**1,096**	2,073	**649**	460	**9,923**	11,881

10. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration		
– current year	**1,421**	1,211
– underprovision in the prior year	**–**	75
	1,421	1,286
Impairment loss on trade debtors	**3,040**	1,663
Loss on disposal of property, plant and equipment	**–**	147
Net foreign exchange loss	**1,202**	–
Rental payments in respect of properties under operating leases	**3,692**	1,836
Retirement benefits scheme contributions (excluding amounts paid under directors' emoluments)	**587**	587
Share of tax of associates (included in share of results of associates)	**382**	212
and after crediting:		
Dividend income from listed investments	**2,513**	2,425
Gain on disposal of property, plant and equipment	**178**	–
Gross rental income from investment properties	**16,985**	15,766
Less: direct operating expenses from investment properties that generated rental income during the year	**(41)**	(38)
	16,944	15,728
Net foreign exchange gain	**–**	1,191
Reversal of impairment loss on trade debtors	**532**	35

For the year ended 31st December, 2006

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 8 (2005: 8) 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 2006
	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	803	828	487	868	–	150	–	–	3,136
Contributions to retirement benefits schemes	–	12	12	12	–	–	–	–	36
Performance related incentive payments *(Note)*	635	715	152	155	–	–	–	–	1,657
Total emoluments	1,438	1,555	651	1,035	300	300	300	300	5,879

	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

Note: The performance related incentive payment is determined based on the Group's performance for each of the two years ended 31st December, 2006.

No directors waived any emoluments in the year ended 31st December, 2005 and 2006.

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the Group included two directors (2005: one director), details of whose emoluments are included in the amounts disclosed in note 11 above. The emoluments of the remaining highest paid employees, other than directors of the Company, are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,677**	4,122
Performance related incentive payments	**725**	453
Retirement benefits scheme contributions	**36**	48
	3,438	4,623

For the year ended 31st December, 2006

12. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK$1,000,001 to HK$1,500,000	**3**	4

13. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividend recognized as distributions during the year:		
Interim dividend paid in respect of 2006 of 4 cents (2005: 10 cents) per ordinary share	**17,820**	44,550
Final dividend paid in respect of 2005 of 10 cents (2004: 10 cents) per ordinary share	**44,550**	44,550
	62,370	89,100

The final dividend of 6 cents for the year ended 31st December, 2006 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. 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$77,637,000 (2005 as restated: HK$70,240,000) and on 445,500,000 ordinary shares (2005: 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 the change in accounting policy shown in note 2 above:

	2006 HK cents	2005 HK cents
Reported figures before adjustments	**17.61**	15.24
Adjustments arising from changes in accounting policy	**(0.18)**	0.53
Restated	**17.43**	15.77

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in either 2006 or 2005.

15. INVESTMENT PROPERTIES

	THE GROUP *HK$'000*
VALUATION	
At 1st January, 2005	260,326
Increase in fair value	9,955
Disposal	(3,720)
At 31st December, 2005	266,561
Transfer from property, plant and equipment	3,197
Increase in fair value	3,517
At 31st December, 2006	273,275

The Group's investment properties comprise:

	2006 **HK$'000**	2005 HK$'000
Properties held under medium-term leases:		
– in Hong Kong	**13,930**	11,400
– elsewhere in the PRC	**208,930**	205,920
	222,860	217,320
Properties held under long leases:		
– elsewhere in the PRC	**47,117**	49,241
– overseas	**3,298**	–
	273,275	266,561

The fair value of the Group's investment properties at 31st December, 2006 has been arrived at on the basis of a valuation carried out on that date by Messrs. Knight Frank and Jones Lang LaSalle independent qualified professional valuers not connected with the Group. Messrs. Knight Frank are members of the Hong Kong Institute of Surveyors, and Jones Lang LaSalle are members of Singapore Institute of Surveyors and Valuers and both have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations, which conforms to International Valuation Standards, were 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$3,517,000 which has been credited to the consolidated income statement.

During the year, certain properties with an aggregate fair value of HK$3,197,000 were reclassified from property, plant and equipment to investment properties. The fair value of such properties at the date of reclassification was determined by reference to the valuation conducted by Jones Lang LaSalle on that date. The difference between the fair value of these properties and their carrying value amounted to HK$1,545,000 that has been credited to property revaluation reserve.

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

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16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Total HK$'000
THE GROUP						
COST OR VALUATION						
At 1st January, 2005	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
Currency realignment	828	29	129	–	8	994
Additions	–	70	–	358	111	539
Disposals	–	(68)	(506)	(77)	(5)	(656)
Increase in revaluation upon transfer to investment properties	768	–	–	–	–	768
Transfer to investment properties	(3,197)	–	–	–	–	(3,197)
At 31st December, 2006	35,646	14,648	3,126	2,260	2,168	57,848
Comprising:						
At cost	7,846	14,648	3,126	2,260	2,168	30,048
At valuation – 1991	27,800	–	–	–	–	27,800
	35,646	14,648	3,126	2,260	2,168	57,848
DEPRECIATION						
At 1st January, 2005	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
Currency realignment	197	27	92	–	5	321
Provided for the year	761	1,094	207	131	472	2,665
Eliminated on disposals	–	(67)	(380)	(77)	(5)	(529)
Written back upon transfer to investment properties	(777)	–	–	–	–	(777)
At 31st December, 2006	8,906	12,536	2,795	1,726	1,585	27,548
CARRYING VALUES						
At 31st December, 2006	26,740	2,112	331	534	583	30,300
At 31st December, 2005	28,522	3,135	627	307	941	33,532

Included in the leasehold land and buildings of the Group are certain lease payments that cannot be allocated reliably between the land and buildings element, the entire lease is treated as a finance lease and included in property, plant and equipment.

16. 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$17,806,000 (2005: HK$19,243,000).

The Group has pledged its leasehold land and buildings having a net book value of approximately HK$6.1 million (2005: HK$7.3 million) to secure general banking facilities granted to the Group.

	Furniture, fixtures and equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1st January, 2005	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
Additions	17	32	49
Disposals	(14)	(9)	(23)
At 31st December, 2006	2,325	1,529	3,854
DEPRECIATION			
At 1st January, 2005	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
Provided for the year	382	422	804
Eliminated on disposals	(13)	(9)	(22)
At 31st December, 2006	1,610	1,089	2,699
CARRYING VALUES			
At 31st December, 2006	715	440	1,155
At 31st December, 2005	1,081	830	1,911

The Group's leasehold land and buildings comprise:

	Leasehold land and buildings	
	2006	2005
	HK$'000	*HK$'000*
Properties held under medium-term leases:		
– in Hong Kong	**20,668**	21,232
Properties held under long leases:		
– overseas	**6,072**	7,290
	26,740	28,522

For the year ended 31st December, 2006

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2006 HK$'000	2005 HK$'000
Unlisted investments at cost, including deemed capital contribution in subsidiaries	**59,008**	52,105

Particulars of the subsidiaries at 31st December, 2006 are set out in note 38.

18. INTERESTS IN ASSOCIATES

	THE GROUP 2006 HK$'000	2005 HK$'000
Cost of investment net of accumulated goodwill and impairment loss in associates		
Listed in Hong Kong	**–**	21,618
Unlisted	**757**	757
Share of post-acquisition profits and reserves, net of dividends received	**(304)**	5,301
	453	27,676

Particulars of the associate at 31st December, 2006 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
KSIP (Thailand 1989) Co., Ltd.	Incorporated	Thailand	Thailand	Ordinary	49	Inactive

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

	31.12.2006 HK$'000	31.12.2005 HK$'000
Total assets	**924**	306,546
Total liabilities	**–**	(140,351)
Net assets	**924**	166,195
Group's share of associate's net assets	**453**	27,676

For the year ended 31st December, 2006

18. INTERESTS IN ASSOCIATES *(continued)*

Revenue and results in respect of the associate disposed:

	Year ended 31.12.2006	Year ended 31.12.2005
	HK$'000	*HK$'000*
Revenue	**340,963**	278,678
(Loss) profit for the period	**(31,600)**	19,734
Group's share of associates' (loss) profit for the period	**(5,215)**	3,257

19. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity securities	–	585
Structured bank deposits, stated at fair value	**14,258**	28,714
	14,258	29,299

As at 31st December, 2005, investment in equity securities that are not measured at fair value amounted to HK$585,000 as their fair value cannot be measured reliably and accordingly, they continue to be carried at cost less impairment. During the year, those investments have been disposed of at HK$1,170,000 and a gain on disposal of HK$585,000 has been recognised in consolidated income statement for the year.

As at 31st December, 2006, structured bank deposits are measured at fair value with upper bound interest rate of 3.7%, which is also the effective interest rate, and maturity date on 6th August, 2009.

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 amounts are shown as non-current assets and measured at amortised cost at the effective interest rate of 5.04% per annum.

21. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Raw materials	**163**	138
Finished goods	**289,698**	145,293
	289,861	145,431

For the year ended 31st December, 2006

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$230,166,000 (2005: HK$143,603,000) which are included in the Group's debtors, deposits and prepayments are as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**129,225**	69,903
31 – 60 days	**66,214**	46,194
61 – 90 days	**23,178**	19,960
91 – 120 days	**10,245**	6,167
121 -365 days	**1,304**	1,379
	230,166	143,603

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

The Group's bills receivable are aged within 90 days.

23. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Listed securities:		
– Equity securities listed in Hong Kong	**34,406**	33,195
– Equity securities listed elsewhere	**31,478**	25,804
	65,884	58,999
Quoted securities:		
– Mutual funds	**113,949**	116,784
	179,833	175,783

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.

Bank balances and short-term bank deposits carry interest at market rates with average interest rate of 3.75% and 2.71% respectively.

25. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors of HK$62,209,000 (2005: HK$18,778,000) which are included in the Group's creditors and accrued charges are as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**61,848**	17,376
31 – 60 days	**361**	1,267
Over 90 days	**–**	135
	62,209	18,778

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

26. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The bank borrowings, which are due within one year, comprise:				
Bank loans				
– secured *(Note)*	**12,424**	5,801	**–**	–
– unsecured	**32,487**	24,297	**25,000**	15,000
Trust receipt and import loans	**444,417**	242,830	**–**	–
	489,328	272,928	**25,000**	15,000

Note: The bank loans were secured by the Group's bank deposits, investment held for trading and buildings charged to the bank from time to time.

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 5.04% (2005: 3.77%) per annum.

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	United States dollars	**Japanese yen**
	'000	*'000*
As at 31st December, 2006	5,953	202,807
As at 31st December, 2005	3,918	229,103

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 repayable on demand.

28. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

29. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At beginning and at end of the years 2005 and 2006	700,000,000	35,000
Issued and fully paid:		
At beginning and at end of the years 2005 and 2006	445,500,000	22,275

For the year ended 31st December, 2006

30. RESERVES

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
THE COMPANY			
At 1st January, 2005			
– as originally stated	153,728	255,524	409,252
– effect of change in accounting policy *(note 2)*	–	2,948	2,948
– as restated	153,728	258,472	412,200
Profit for the year	–	63,916	63,916
Dividends paid *(note 13)*	–	(89,100)	(89,100)
At 31st December, 2005	153,728	233,288	387,016
Profit for the year	–	43,176	43,176
Dividends paid *(note 13)*	–	(62,370)	(62,370)
At 31st December, 2006	153,728	214,094	367,822

The Company's reserves available for distribution to shareholders as at 31st December, 2006 comprised the retained profits of HK$214,094,000 (2005: HK$233,288,000).

31. DEFERRED TAX LIABILITIES

The Group's deferred tax liabilities are set out below:

	Fair value change of investment properties HK$'000	Revaluation of leasehold land and building HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1st January, 2005	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
Charge to income for the year	645	–	–	645
Charge to reserve for the year	–	340	–	340
At 31st December, 2006	4,742	2,766	1,150	8,658

At the balance sheet date, the Group has unused tax losses of approximately HK$107 million (2005: HK$109 million) available for offset against future profits. No deferred tax assets 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.

32. 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	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,483**	1,670	**602**	422
In the second to fifth year inclusive	**23**	1,497	**60**	242
	1,506	3,167	**662**	664

Operating lease payments represent rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for term ranging from one to two years and rentals are fixed over the lease terms.

The Group as lessor:

Property rental income earned during the year is disclosed in note 10. The properties held have committed tenants for the lease term ranging 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	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**12,087**	12,590
In the second to fifth year inclusive	**9,676**	6,955
	21,763	19,545

33. CONTINGENT LIABILITIES

As at 31st December, 2006, the financial guarantee given to banks in respect of banking facilities utilised by the subsidiaries amounted to HK$457,667,000 (2005: HK$258,182,000) of which HK$6,254,000 (2005: HK$2,667,000) was recognised in the Company's balance sheet as financial guarantee contracts included in creditors and accrued charges.

A subsidiary of the Company 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 to this supplier pursuant to which the Company absolutely and unconditionally guarantees the punctual payment and performance of obligations by the subsidiary of the Company under the stock consignment agreement at the maximum cap of US$450,000 for thirty-six months from 19th April, 2006. At 31st December, 2006, the consignment inventories amounted to HK$3,060,000 (2005: HK$2,164,000). The fair value of the financial guarantee contract of the Group is considered immaterial.

34. PLEDGE OF ASSETS

At 31st December, 2006, certain bank deposits, investments held for trading and buildings with aggregate carrying values of HK$25,408,000 (2005: HK$25,544,000) were pledged to banks to secure banking facilities granted to the Group.

35. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme and other defined contribution retirement schemes 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 TRANSACTIONS

Other than the consignment agreement and related guarantee provided as disclosed in note 33, the Group has the following transactions with related parties:

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 total consideration of HK$755,000. Full amounts had been paid up to the year ended 31st December, 2005. In addition, the Company also paid system maintenance fees of HK$167,000 (2005: HK$177,000) to the subsidiary of the associate during the year up to the effective date of disposal of the associate.

The above captioned associate is disposed of during the year *(see note 8)*.

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

37. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of giving a rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance of doubtful debts

The Group makes allowances for bad and doubtful debts when there is objective evidence that receivables balances are impaired. The balances of the receivables are based on the present value of estimated future cash flows discounted at the effective rate computed at initial recognition. The directors involved a considerable amount of judgment in assessing the ultimate realisation of these receivables including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their activity to make payments, additional allowance may be required.

38. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The risks associated with the 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, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. Other than the financial assets recognised on the Company's balance sheet as at 31st December, 2006, the Company also exposed to credit risk in respect of the financial guarantees granted to its subsidiaries as disclosed in note 33.

38. FINANCIAL INSTRUMENTS *(continued)*

a. Financial risk management objectives and policies *(continued)*

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. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. 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.

Market risk

Foreign exchange risk

Several subsidiaries of the Company have foreign currency investments held for trading and bank borrowings which are denominated in currency other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk. The Group will use forward exchange contracts to hedge its foreign currency exposure when considered appropriate.

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank borrowings which are matured within one year and variable-rate structured bank deposits and other bank deposits. The Group currently does not have a specific interest rate hedging policy to hedge against its exposures to interest rate risk. However, management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the need arise.

Other price risk

The Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles in accordance with the limits set by the Group.

Liquidity risk

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

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the management maintains flexibility in funding by maintaining availability under committed credit lines.

b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values:

For the year ended 31st December, 2006

39. SUBSIDIARIES

Particulars of the subsidiaries at 31st December, 2006 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 PRC	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 and Taiwan	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

For the year ended 31st December, 2006

39. 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
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, 2006 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.

Particular of Investment Properties

At 31st December, 2006

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
OVERSEAS		
39 Jalan Pemimpin #03-01 Tai Lee Industrial Building Singapore	Warehouse	Long Lease

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