K.P.I. Company Limited

Stock Code: 605

GLOBAL
VISION

ANNUAL 2005 REPORT

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr Cheung Siu Lam *(Chairman)*
Mr Chan Yuk Ming *(Vice-Chairman)*
Madam Lo Wan

Non-Executive Director

Mr Yu Hei Wung, Raymond

Independent Non-Executive Directors

Mr Wang Jian Sheng
Mr Chan Chun Keung
Mr Tang Tse Yee, Kennedy

QUALIFIED ACCOUNTANT

Mr Chung Chin Keung FCCA, CPA

COMPANY SECRETARY

Madam Lo Yee Har, Susan

AUDITORS

CCIF CPA Limited

AUDIT COMMITTEE

Mr Tang Tse Yee, Kennedy *(Chairman)*
Mr Wang Jian Sheng
Mr Chan Chun Keung

PRINCIPAL BANKER

Bank of China

SHARE REGISTRARS

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

www.kpi.com.hk

It is my pleasure to present the annual result of K.P.I. Company Limited (the "Company", together with its subsidiaries collectively referred as the "Group") for the year ended 31 December 2005. Turnover for the year ended 31 December 2005 was approximately HK$61,816,000, representing a decrease of 56.1% as compared to 2004 (2004: HK$141.0 million). Net loss for the year was approximately HK$23,251,000 (2004 (restated): HK$11,822,000).

OPERATING REVIEW

The year 2005 is a challenging year for the Company. The Group has increased its participation in general administration in certain retail projects in the PRC operated by its jointly controlled entities. However, due to the intense competition in hypermarket/supermarket industry in the PRC, Hua Lian GMS Shopping Center Company Limited ("Hualian GMS"), a PRC hypermarket operator established by the Group's jointly controlled entities, has closed down some poorly performed outlets in northeastern PRC. As a result, the Group's share of result from Hualian GMS in relation to the non recurring lump sum loss amounting to approximately HK$10.0 million. The directors are confident that the retailing industry in the PRC will maintain a steady growth and as a leading hypermarket operator in the region, Hualian GMS will show a significant improvement in 2006.

The Group will withdraw from large transactions of fertilizer trading and realigned its business direction and resources to retailing business. It is the intention of the Company to solicit certain good quality retailing business partners in the PRC to consolidate market share and increase its strategic investments in retail related businesses.

INTERNAL CONTROL

The Group continues to implement strict financial and cost control. Annual budgets are formulated for the Board's approval and strict compliance are observed. The Group has implement a performance management system to conduct regular reviews on its investment in the PRC annually to ensure all risks arising from the Group's business are under timely and effective supervision. The Group also considers engaging external advisors for providing internal control programmes when necessary.

OUTLOOK

It is believed that the economic development of China will maintain a steady growth and retailing business remains a high growth arena, though intense competition would speed up industry consolidation. The Company will formulate business plans pursuant to the ever changing business environment which will place the Group in a good position to seize any new development opportunities ahead and to achieve a better return for our shareholders. The Board maintains a cautiously optimistic outlook for 2006.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude towards our shareholders, business partners for their long term and enthusiastic support and all our staff for their devotion and dedicated efforts made during the year.

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 20 April 2006

The Company recognizes the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Company's needs.

The Company's corporate governance practices are based on the principles ("Principles"), code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with most of the Code Provisions save for the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code and certain deviations from the Code Provisions in respect of Code Provisions A.1.1, A.2.1, A.4.2, B.1.1 and E.1.2, details of which will be explained below.

The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the CG Code.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Composition

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises seven members, consisting of three executive directors, one non-executive director and three independent non-executive directors.

The list of all directors is set out under "Corporate Information" which shall specify the posts e.g. Chairman and Vice Chairman, and chairman and member of committee, held by each director on page 2.

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 16.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the non-executive directors of the Company is engaged on a service contract for a term of one year. The appointment may be terminated by not less than two months' written notice.

Deviation from Code Provision A.4.2 (& reasons):

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Articles of Association deviate from Code Provision A.4.2 of the CG Code which provides that one-third of the directors for the time being (save for the Executive Chairman/Managing Director), or if their number is not three nor a multiple of three, then the number nearest to one-third, shall retire from office and being eligible, offer themselves for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

To conform with Code Provision A.4.2 of the CG Code, Mr Cheung Siu Lam, the Chairman of the Company, has retired at the 2005 annual general meeting and a special resolution will be proposed at the 2006 annual general meeting of the Company to amend the Company's Articles of Association so that all directors will be subject to retirement by rotation once every three years and any new director appointed to fill a causal vacancy shall be subject to re-election by shareholders at the first general meeting after appointment.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Madam Lo Wan and Mr Chan Chun Keung shall retire by rotation and being eligible, offer themselves for re-election at the 2006 annual general meeting.

The Board recommended the re-appointment of the directors standing for re-election at the 2006 annual general meeting of the Company.

The Company's circular dated 28 April 2006 contains detailed information of the directors standing for re-election.

Training for Directors

There is no arrangement in place for providing professional briefings and training programmes to directors. The Company shall consider to engage external legal and other professional advisors for providing professional briefings and training programmes to directors on an occasional basis.

Board Meetings

Deviation from Code Provision A.1.1 (& reason):

Code Provision A.1.1 stipulates that the Company should hold at least four regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Company does not announce its quarterly results and hence not consider the holding of quarterly meeting as necessary.

Number of Meetings and Directors' Attendance

The Board met twice during the year ended 31 December 2005 for approving the final results for the year ended 31 December 2004 and interim results for the period ended 30 June 2005.

The individual attendance record of each director at the meetings of the Board and Audit Committee during the year ended 31 December 2005 is set out below:

Name of Directors	**Attendance/ Number of Meetings Board**	**Audit Committee**
Mr Cheung Siu Lam	5/8	N.A.
Madam Lo Wan	5/8	N.A.
Mr Chan Yuk Ming	3/8	N.A.
Mr Yu Hei Wung, Raymond	5/8	N.A.
Mr Tang Tse Yee, Kennedy	1/8	3/3
Mr Wang Jian Sheng	0/8	2/3
Mr Chan Chun Keung	1/8	2/3

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer attends all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The secretary of the meetings is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Deviation from Code Provision A.2.1 (& reasons):

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Ms Cheung Siu Lam is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

AUDIT COMMITTEE

The Board has established the Audit Committee and with defined written terms of reference. The terms of reference of the Audit committee are posted on the Company's website and are available to shareholders upon request.

The members of the Audit Committee are independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and the list of the chairman and members of the Audit committee is set out below:

Audit Committee
Mr Tang Tse Yee, Kennedy *(Chairman)*
Mr Wang Jian Sheng
Mr Chan Chun Keung

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee is provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 has been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

Deviation from Code Provision B.1.1 (& reasons):

Code Provision B.1.1 stipulates that the Company should establish a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee and arrangements are being taken place for setting up of a remuneration committee of the Company comprising a majority of members of independent non-executive directors.

During the year ended 31 December 2005, the Board as a whole is responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and the senior management. The Board is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Board normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Board for consideration. The Board shall consult the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Board met three times during the year ended 31 December 2005 and reviewed the remuneration policy and structure of the Company and remuneration packages of the directors and the senior management for the year under review.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code of conduct (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code and the Own Code throughout the year ended 31 December 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 25.

The external auditors have not rendered non-audit services to the Company for the year ended 31 December 2005. The remuneration paid to the external auditors of the Company in respect of audit services and for the year ended 31 December 2005 amounted to HK$200,000.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Company and of the Stock Exchange.

Deviation from Code Provision E.1.2 (& reason):

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman did not attend the annual general meeting held on 24 May 2005 as he had other business engagement in the PRC.

The Board recognizes that the general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board, or at his absence, an executive director of the Company, as well as chairman of the Audit Committee, or in their absence, members of the Audit Committee, and where applicable, the independent Board committee, will be available to answer questions at future shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at www.kpi.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

On behalf of the Board
Cheung Siu Lam
Chairman and Chief Executive Officer

The Group has realigned its business direction and allocated more resources on retailing, food supply chain and modern logistic business.

Capturing Growth Opportunities

The Board of Directors (the "Board") of K.P.I. Company Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

OVERVIEW

During the year under review, the Group recorded a turnover of approximately HK$61,816,000, a decrease of 56.1% as compared with the corresponding figure of previous year. Loss for the year was HK$23,251,000. The Group continued to implement strict financial and cost control.

FINANCIAL HIGHLIGHT

	2005 **HK'000**	2004 HK'000 (restated)
Turnover	**61,816**	140,953
Operating (loss)/profit	**(11,527)**	8,273
(Loss)/profit for the year	**(23,251)**	11,822
Basic (loss)/earnings per share	**(HK2.29 cents)**	HK1.36 cents

BUSINESS REVIEW

Trading Business – Direction

Turnover of trading of chemical fertilizers amounted to approximately HK$61.6 million. The reduction of trade volume is due to our gradual withdrawal from large transactions of fertilizer trading.

Retailing Business – General Environment

It is generally believed that economic growth in the PRC will maintain an annual growth rate of 8.0% in 2006, despite various government measures to regulate the overheated economy. As economic growth remains strong and the momentum of consumption continues to grow steadily, the escalating purchasing power within the country will constitute a powerful driving force for the growth of PRC retail business. On the other hand, competition in the retail market will be becoming more intense when foreign investors are allowed to enter the market without restriction. Growth by frequent mergers and acquisitions and cross regional expansion will be a trend in market transformation and consolidation. Brand building, cost control, product selection and quality assurance, network deployment, supply chain management, customer differentiation as well as efficient systems management will contribute to the success of retail operators.

Retailing Business – Shanghai

During the year, the Group's jointly controlled entity, Hualian GMS, conducted a comprehensive review on individual outlet performance and seven poorly performed outlets were closed down. The closed-down stores were mainly located in northeastern PRC where economic development and consumption demand were slower than expected. As a result, Hualian GMS has experienced a short-term lump sum loss of approximately RMB51.1 million during the year. The management of Hualian GMS will continue to adopt a prudent approach on store expansion in Shanghai and eastern China and conduct operational review more regularly to meet the ever-changing environment. The management of Hualian GMS also readjusts the strategy of product mix and regional penetration, and places more emphasis on overhead control, supply chain development and management efficiency. With numerous high quality stores and an outstanding brand name in Shanghai, Hualian GMS is the leading hypermarket operator in the region. We are confident that the operating profit of Hualian GMS for 2006 will post a significant improvement.

The Group has been conducting active negotiations with other shareholders of Hualian GMS to discuss the possibility of increase the Group's equity stake in Hualian GMS. No material terms in relation to the proposed acquisition have been agreed upon. The Group will keep the market informed by way of announcement in compliance with the requirements of the Listing Rules as and when any binding agreement in relation to the acquisition has been signed.

Retailing Business – Beijing

The Group's convenience store project, which was held by the Group's jointly controlled entities, took over the management of another chain of stores comprising about 30 quality stores in September 2005. As a result, operating costs have been reduced to a large extent and we believe that break-even would soon be reached. Without doubt, the 2008 Olympic Games in Beijing will further boost economic growth and consumption in Beijing. As of December 2005, the number of outlets reached approximately 110 stores.

To prepare for the opportunities ahead, more outlets will be established by both organic growth and selective acquisitions of domestic chains. Several factors were carefully considered when the expansion strategy was executed such as:

- the identification and securing of prime store locations;
- the control of rental and staff costs at a reasonable level;
- the intensity of competition in areas where new stores are to be located;
- the ability to change product mix to meet the demands of different consumer groups;
- the ability to reduce purchasing costs and distribution costs.

Market concentration is important to meet various demands from different consumer groups and to achieve economies of scale and brand awareness. In addition, an effective pricing policy complements effective product strategy to enhance the competitiveness of our convenience store business.

Further diversification in food production and distribution in Beijing would lead to an enhancement of the unique competitive edge of the Company. During the year, the Board has targeted several suitable state-owned brand name food production and distribution enterprises and preliminary negotiations have been conducted.

Future Outlook

The Group has aligned its core business with retailing and has established good relationship with certain stated owned retailing operators in the PRC. Closer cooperation with these business partners is expected when opportunities arise. Furthermore, the Board is vigorously negotiating with overseas professional investment partners to optimize and expand the shareholder base of the Company. We are continuing our efforts to increase shareholders' return and to enhance share price performance by maximizing investment returns.

FINANCIAL REVIEW

During the period under review, turnover of the Group was approximately HK$61,816,000, representing a decrease of approximately 56.1% as compared with the corresponding figure of last year. Loss for the year was approximately HK$23.3 million. This disappointing result was largely attributable to share of loss from Hualian GMS amounting to approximately HK$10.0 million, impairment loss on goodwill of a subsidiary amounting to HK$1.7 million and additional staff costs incurred on granting employee share options amounting to approximately HK$4.5 million pursuant to the adoption of HKFRS 2. Since the loss incurred by Hualian GMS is non-recurring, it is expected that the performance of Hualian GMS will attain encouraging improvement after the reorganisation exercises. The Board believes Hualian GMS will constitute a significant source of revenue and profit to the Group in future. It is the intention of the Board to withdraw from large transactions of fertilizer trading and allocate more resources to the retailing business.

Assets, Liabilities and Liquidity

As of 31 December 2005, the Group had net assets of approximately HK$173.7 million. Non current assets were mainly comprised property, plant and equipment and land lease prepayment of approximately HK$4.1 million, investment property of approximately HK$12.5 million, interests in jointly controlled entities of approximately HK$34.5 million and other non current assets of approximately HK$3.5 million. Current assets were mainly comprised pledged time deposits and cash and cash equivalents of approximately HK$90.0 million, deposits and prepayments of approximately HK$25.7 million and financial assets at fair value through profit or loss of approximately HK$16.4 million. Current liabilities mainly comprised other payables and accruals of approximately HK$11.8 million.

During the year, the Company has not issued any additional share.

Pledge of Assets

Approximately HK$37.9 million bank deposits and a property with net book value of HK$12.5 million were pledged to secure general banking facilities granted to the Group.

Foreign Currency Exposure

The majority of the Group's revenues, expenses and cashflows are denominated in RMB and HK Dollars. Assets and liabilities of the Group are mostly denominated in RMB, HK Dollars and US Dollars. As such, the Group has limited foreign exchange exposure. The Group has not entered into any agreements or purchased of any financial instruments to hedge the foreign exchange risks of the Group. In July 2005, the People's Bank of China announced that the RMB exchange rate mechanism would be adjusted to a managed floating exchange rate system and that the exchange rate of RMB to US Dollars has been revalued upwards during the year. The Group believes that the revaluation of RMB will not have any adverse effect on the Group's operations.

Ratio

As of 31 December 2005, the Group had no interest bearing borrowings and no financial instruments held for hedging purpose. The gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 0% as of 31 December 2005 (2004: 0%). The Group's current ratio defined as total current assets to total current liabilities was 8.3 as of 31 December 2005 (2004 (restated): 3.2).

	2005 **HK$ million**	2004 HK$ million (restated)
Cash	**90.0**	125.8
Bank borrowings	**0**	0
Gearing ratio	**0**	0
Current ratio	**8.3**	3.2

Administrative expenses for the Group in 2005 were approximately HK$20.2 million, representing an increase of 47.1% compared to that of previous year, due to the additional staff costs incurred on granting employee share options under the adoption of HKFRS 2.

HUMAN RESOURCES MANAGEMENT

As of 31 December 2005, the Group, excluding associated companies and jointly controlled entities, had a total of 19 employees (2004: 21), 15 of whom are based in Hong Kong while 4 are stationed in the PRC. Total staff costs for the year were approximately HK$12.3 million. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance, which are regularly reviewed by the management. The Company has adopted a share option scheme on 7 June 2004 whereby employees of the Group, including Directors of the Group, may be granted options to acquire shares in the Company.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year under review, the Group has no material acquisitions and disposals.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no significant contingent liabilities.

EXECUTIVE DIRECTORS

MR CHEUNG SIU LAM, aged 47, is a co-founder and Chairman of the Group. Before establishing the Group, Mr Cheung worked for Beijing Machinery Import & Export Company for many years. Mr Cheung has extensive experience in trading and retailing business in PRC. Mr Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr Cheung is the spouse of Madam Lo Wan.

MR CHAN YUK MING, aged 47, is the Vice-Chairman of the Group. Mr Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Beijing Commercial Bureau, under the supervision of Ministry of Commerce. He joined the Group in 1985 and is responsible for the business development and management of the Group.

MADAM LO WAN, aged 44, joined the Group in 1989. Prior to joining the Group, she worked for a PRC trading Company. Madam Lo is responsible for the investment activities of the Group. Madam Lo is the spouse of Mr Cheung Siu Lam, the Chairman of the Group.

NON-EXECUTIVE DIRECTOR

MR YU HEI WUNG, RAYMOND, aged 50, obtained a bachelor degree in Business Administration from the University of Regina, Canada in 1981. Mr Yu has worked for several multinational agricultural commodities trading companies as financial manager and trading manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS

MR TANG TSE YEE, KENNEDY, aged 50, graduated from The Hong Kong Polytechnic University in 1980. Mr Tang is fellow and practicing member of The Hong Kong Institute of Certified Public Accountants, a fellow member of Hong Kong Taxation Institute, The Australian Society of Certified Practicing Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries and also a member of Chartered Institute of Arbitrators in the United Kingdom. Mr Tang has over 25 years of professional experience of which 15 years are with an international accounting firm and is now the managing partner of Kennedy Tang & Co. Mr Tang is the Chairman of the Audit Committee of the Company. Mr Tang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR WANG JIAN SHENG, aged 53, graduated from Luoyang Industrial Institution with a degree in engineering. He has been involved in industrial businesses for more than 20 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr Wang joined the Group in 1996. Mr Wang is also a member of the Audit Committee of the Company. Mr Wang does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

MR CHAN CHUN KEUNG, aged 55, joined the Group in November, 2000. Mr Chan is the Chairman of Everbest Century Holdings Limited, a listed Company in Hong Kong. Mr Chan has extensive experience in trading and investment in the PRC and is currently a committee member of the Chinese People's Political Consultative Conference of Fujian Province, the PRC, the Vice-Chairman of the Fujian Economic Development Association in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr Chan is also a member of the Audit Committee of the Company. Mr Chan does not have any relationship with any other Directors, senior management, substantial shareholders, or controlling shareholders of the Company.

COMPANY SECRETARY

MADAM LO YEE HAR, SUSAN, aged 47, is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. She has more than 21 years experience in secretarial work for both private and public companies, which include business advisory, corporate restructuring and trust administration services. She is a director of the corporate services department of Tricor Services Limited & Tengis Limited, a leading professional corporate service provider in Hong Kong.

SENIOR STAFF

MR TAO YE, aged 33, is the general manager of the Group. He joined the Group in January, 2004. Mr Tao graduated in Peking University in 1995 and obtained a bachelor degree in Science and a certificate in Law. Mr Tao further obtained a master degree in Science and Business Administration from Peking University in 1998 and 2001 respectively. Prior to joining the Group, Mr Tao was the director of strategic planning of Beijing K.P.I. Hi-24 Convenience Stores Company Limited and the duty general manager of Wangfang Data Group. Mr Tao has extensive experience in strategic planning, business administration and corporate management.

MADAM CHIN TUNG MUI, aged 44, graduated from Beijing Institute of Business with a degree in economics. Madam Chin also holds a master degree in Business Administration from the Open University of Hong Kong. She joined the Group in 1990 and is the Deputy General Manager of K.P.A. Company Limited.

MR CHUNG CHIN KEUNG, aged 38, is the financial controller and qualified accountant of the Group. He joined the Group in October, 2004. Mr Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. Mr Chung has 15 years experience in finance, accounting and management. Before joining the Group, Mr Chung worked for various listed companies in Hong Kong and overseas. Mr Chung is a fellow member of The Association of Chartered Certified Accountants, a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Institute of Financial Consultants.

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities and other particulars of the subsidiaries, associates and jointly controlled entities are set out in notes 17, 18 and 19 to the financial statements respectively.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2005 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 28. The directors do not recommend the payment of any dividend in this year (2004: nil).

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment of the Company and the Group and the investment property of the Group are set out in notes 14 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 29 and 30 to the financial statements, respectively.

DISTRIBUTABLE RESERVES

Loss for the year attributable to equity holders of the Company of HK$23,251,000 (2004 (restated): HK$11,822,000) has been transferred to reserves. At 31 December 2005, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 100% of the Group's total turnover for the year and sales to the largest customer included therein amounted to approximately 100% of the Group's total turnover.

The aggregate purchases from the five largest suppliers of the Group accounted for approximately 100% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 100% of the Group's total purchases.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Cheung Siu Lam *(Chairman)*
Chan Yuk Ming *(Vice-chairman)*
Lo Wan

Non-executive director

Yu Hei Wung, Raymond *(Note)*

Independent non-executive directors

Wang Jian Sheng
Chan Chun Keung
Tang Tse Yee, Kennedy

Note: Mr. Yu Hei Wung, Raymond has been re-designated from executive director to non-executive director of the Company with effect from 1 August 2005.

In accordance with article 105(A) of the Company's Articles of Association, Madam Lo Wan and Mr. Chan Chun Keung will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS' SERVICE CONTRACTS

The non-executive director, Mr. Yu Hei Wung, Raymond, has entered into a service contract with the Company for one year commencing on 1 August 2005 and is subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the Articles of Association of the Company.

All the independent non-executive directors, namely Wang Jian Sheng, Chan Chun Keung and Tang Tse Yee, Kennedy entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2005 and are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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 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 SHARE CAPITAL

As at 31 December 2005, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV the 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 Transaction by Directors of Listed Companies ("Model Code"), were as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Number of ordinary shares held	Underlying shares interested *(Note 1)*	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 32,282,000 ordinary shares and 1,000,000 underlying shares *(Note 2)* and interest in controlled corporation of 86,400,000 ordinary shares *(Note 3)*	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares *(Note 4)*	577,726,240	2,000,000	57.06%
Chan Yuk Ming	Beneficial owner	–	10,000,000	0.98%
Yu Hei Wung, Raymond	Beneficial owner	–	7,000,000	0.68%

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.

2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 32,282,000 ordinary shares and 1,000,000 underlying shares held by Lo Wan.

3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam, 27.5% by Lo Wan and 12.5% by Zhang Wei. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

4. By virtue of the SFO, Lo Wan is deemed to be interested in 545,444,240 ordinary shares including 459,044,240 shares held by Cheung Siu Lam as a beneficial owner and 86,400,000 shares held by Cheung Siu Lam through his interest in Arbalice Holdings Limited and 1,000,000 underlying shares held by Cheung Siu Lam.

Save as disclosed above, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations were recorded in the register required to be kept under Section 352 of the SFO as at 31 December 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings "Directors' interests in share capital" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS IN SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following company and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of the SFO:

Long positions in shares and underlying shares of the Company

Name	Capacity	Number of ordinary shares held	Underlying shares interested	Aggregate long position in shares and underlying shares to issued share capital
Cheung Siu Lam	Beneficial owner of 459,044,240 ordinary shares and 1,000,000 underlying shares, family interest of 32,282,000 ordinary shares and 1,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	577,726,240	2,000,000	57.06%
Lo Wan	Beneficial owner of 32,282,000 ordinary shares and 1,000,000 underlying shares, family interest of 545,444,240 ordinary shares and 1,000,000 underlying shares	577,726,240	2,000,000	57.06%
Arbalice Holdings Limited *(Note)*	Beneficial owner	86,400,000	–	8.50%

Note: The above interest in the name of Arbalice Holdings Limited was also disclosed as interests of Cheung Siu Lam in the sections of "Directors' interests in share capital" and "Interests in substantial shareholders".

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 7 June 2004 (the "New Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

A summary of the New Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest (the "Invested Entity").
Participants	(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity; (ii) any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the New Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	69,587,733 ordinary shares and 6.85% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including exercised, cancelled and outstanding options) to such person in the 12 month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the relevant class of shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000,

such grant or further grant of options must be approved by the shareholders in a general meeting.

Period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the New Scheme.
Minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.
Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted with 28 days from the date of the offer with a consideration of HK$1.00 being payable by the grantee.
Basis of determining the exercise price	Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
The remaining life of the New Scheme	The New Scheme remains in force until 6 June 2014.

During the year ended 31 December 2005, the Company has granted 99,500,000 share options to certain directors and employees. Details of the share options granted under the New Scheme are as follows:

Director	Date of offer	Exercise price	Outstanding at 1.1.2005	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31.12.2005	Exercise period	Closing price of the securities immediately before the date on which the options were offered
Cheung Siu Lam	02.02.05	0.138	–	1,000,000	–	–	1,000,000	02.02.05-06.06.14	0.131
Lo Wan	02.02.05	0.138	–	1,000,000	–	–	1,000,000	02.02.05-06.06.14	0.131
Chan Yuk Ming	02.02.05	0.138	–	10,000,000	–	–	10,000,000	02.02.05-06.06.14	0.131
Yu Hei Wung, Raymond	02.02.05	0.138	–	7,000,000	–	–	7,000,000	02.02.05-06.06.14	0.131
Employees in aggregate	10.01.05	0.126	–	48,500,000	–	–	48,500,000	10.01.05-06.06.14	0.126
	01.09.05	0.156	–	32,000,000	–	–	32,000,000	01.09.05-06.06.14	0.156

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2005. Neither the Company nor any of its subsidiaries have purchased, sold any of the Company's listed securities during the year ended 31 December 2005.

RETIREMENT SCHEMES

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

AUDITORS

The financial statements have been audited by CCIF CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Cheung Siu Lam
Chairman and Chief Executive Officer

Hong Kong, 20 April 2006

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF
K. P. I. COMPANY LIMITED
(Incorporated in Hong Kong with Limited Liability)

We have audited the financial statements on pages 26 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements 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.

BASIS OF OPINION

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

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

OPINION

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

CCIF CPA Limited
Certified Public Accountants

Hong Kong, 20 April 2006

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (restated)
TURNOVER	5	61,816	140,953
COST OF SALES		(60,249)	(138,228)
GROSS PROFIT		1,567	2,725
OTHER REVENUE	5	7,912	8,369
ADMINISTRATIVE EXPENSES		(20,230)	(13,754)
CHANGES IN FAIR VALUE ON INVESTMENT PROPERTIES		1,000	3,600
(LOSS)/PROFIT ON DISPOSAL OF JOINTLY CONTROLLED ENTITIES		(1,776)	7,333
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	7	(11,527)	8,273
FINANCE COSTS	8	(92)	(218)
SHARE OF RESULTS OF JOINTLY CONTROLLED ENTITIES		(11,632)	2,514
(LOSS)/PROFIT BEFORE TAXATION		(23,251)	10,569
INCOME TAX EXPENSES	10(a)	–	1,253
(LOSS)/PROFIT FOR THE YEAR		(23,251)	11,822
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		(23,251)	11,822
MINORITY INTEREST		–	–
		(23,251)	11,822
DIVIDEND	12	–	–
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
– Basic	13	(HK2.29 cents)	HK1.36 cents
– Diluted	13	(HK2.28 cents)	N/A

The notes on pages 32 to 75 form an integral part of these financial statements.

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**1,953**	1,926
Land lease premium	15	**2,115**	2,158
Investment property	16	**12,500**	11,500
Interests in an associate	18	**–**	–
Interests in jointly controlled entities	19	**34,508**	47,916
Goodwill	20	**–**	1,695
Long term unlisted investments	21	**–**	773
Available-for-sale investments	21	**3,534**	–
Golf club memberships	21	**–**	2,761
		54,610	68,729
Current assets			
Marketable securities	22	**–**	3,307
Financial assets at fair value through profit or loss	22	**16,445**	–
Trade and bills receivables	23	**–**	34,622
Other receivables, deposits and prepayments		**25,650**	13,536
Amounts due from jointly controlled entities	28	**3,291**	3,291
Pledged time deposits	24	**37,900**	36,768
Cash and cash equivalents	24	**52,064**	89,024
		135,350	180,548
LIABILITIES			
Current liabilities			
Tax payable	10(b)	**–**	–
Trade and bills payable	25	**–**	35,351
Amounts due to jointly controlled entities	28	**4,495**	10,382
Other payables and accruals		**11,788**	11,150
		16,283	56,883
Net current assets		**119,067**	123,665
NET ASSETS		**173,677**	192,394
CAPITAL AND RESERVES			
Share capital	29	**101,588**	101,588
Reserves	31	**72,089**	90,806
		173,677	192,394

Approved and authorised for issue by the board of directors on 20 April 2006.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 32 to 75 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Fixed assets	*14*	**384**	612
Interests in subsidiaries	*17*	**13,799**	13,799
		14,183	14,411
Current assets			
Marketable securities	*22*	**–**	–
Other receivables, deposits and prepayments		**4,616**	536
Amounts due from subsidiaries	*27*	**54,627**	33,427
Pledged time deposits	*24*	**37,900**	36,768
Cash and cash equivalents	*24*	**46,716**	86,779
		143,859	157,510
LIABILITIES			
Current liabilities			
Other payables and accruals		**189**	463
Amounts due to subsidiaries	*27*	**9,195**	15,150
		9,384	15,613
Net current assets		**134,475**	141,897
NET ASSETS		**148,658**	156,308
CAPITAL AND RESERVES			
Share capital	*29*	**101,588**	101,588
Reserves	*31*	**47,070**	54,720
		148,658	156,308

Approved and authorised for issue by the board of directors on 20 April 2006.

On behalf of the board

Cheung Siu Lam
Director

Chan Yuk Ming
Director

The notes on pages 32 to 75 form an integral part of these financial statements.

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share-based compensation reserve HK$'000	Statutory public welfare reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000
At 1 January 2004									
– as previously reported	67,725	108,663	30,652	–	173	2,613	205	(61,297)	148,734
– effect of change in accounting policies	–	–	–	–	–	–	–	(241)	(241)
– as restated	67,725	108,663	30,652	-	173	2,613	205	(61,538)	148,493
Issue of one right share for every two existing shares	33,863	–	–	–	–	–	–	–	33,863
Issuing expenses	–	(1,784)	–	–	–	–	–	–	(1,784)
Profit for the year (as restated)	–	–	–	–	–	–-	–	11,822	11,822
At 31 December 2004 (as restated)	101,588	106,879	30,652	–	173	2,613	205	(49,716)	192,394
At 1 January 2005									
– as previously reported	101,588	106,879	30,652	–	173	2,613	205	(49,455)	192,655
– effect of change in accounting policies	–	–	–	–	–	–	–	(261)	(261)
– opening adjustment for the adoption of HKFRS 3	–	–	(30,652)	–	–	–	–	30,652	–
– as restated	101,588	106,879	–	–	173	2,613	205	(19,064)	192,394
Exchange adjustment	–	–	–	–	–	75	–	–	75
Employee share option benefits	–	–	–	4,459	–	–	–	–	4,459
Loss for the year	–	–	–	–	–	–	–	(23,251)	(23,251)
At 31 December 2005	**101,588**	**106,879**	**–**	**4,459**	**173**	**2,688**	**205**	**(42,315)**	**173,677**

The notes on pages 32 to 75 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (restated)
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss)/profit from operating activities	**(11,527)**	8,273
Adjustments for		
Depreciation of property, plant and equipment	**378**	475
Impairment of goodwill	**1,695**	–
Loss on disposal of property, plant and equipment	**18**	–
Interest income	**(3,405)**	(1,101)
Bad debts recovered	**(41)**	(748)
Share-based compensation	**4,459**	–
Dividend income from marketable securities	**(520)**	(27)
Unrealised loss/(gain) on changes in fair values of marketable securities	**539**	(104)
Gain on disposal of property, plant and equipment	**–**	(38)
Gain on disposal of marketable securities	**(3,218)**	(1,944)
Amortisation of goodwill	**–**	566
Amortisation of land lease premium	**43**	44
Changes in fair value of investment properties	**(1,000)**	(3,600)
Loss/(profit) on disposal of jointly controlled entities	**1,776**	(7,333)
Operating loss before working capital changes	**(10,803)**	(5,537)
Decrease in inventories	**–**	92
Decrease in trade and bills receivables	**34,622**	24,965
Increase in other receivables, deposits and prepayments	**(12,114)**	(6,872)
Decrease in trade and bills payables	**(35,351)**	(12,084)
Increase/(decrease) in other payables and accruals	**638**	(595)
Cash used in operations	**(23,008)**	(31)
Interest received	**3,405**	1,101
Interest paid	**(92)**	(218)
Dividend received from investments in marketable securities	**520**	27
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	**(19,175)**	879

	2005 *HK$'000*	2004 *HK$'000* (restated)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(572)**	–
Purchases of golf club membership	**–**	(551)
Purchases of marketable securities	**(42,556)**	(12,091)
Proceeds on disposal of marketable securities	**32,212**	13,481
Proceeds on disposal of property, plant and equipment	**150**	542
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(10,766)**	1,381
FINANCING ACTIVITIES		
Increase in amounts due from/(to) jointly controlled entities	**(5,887)**	(1)
Increase in pledged time deposits	**(1,132)**	(501)
Issue of new shares	**–**	33,863
Issuing expenses	**–**	(1,784)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	**(7,019)**	31,577
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(36,960)**	33,837
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**89,024**	55,187
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**52,064**	89,024
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Time deposits	**48,741**	83,675
Cash at banks and on hand	**3,323**	5,349
	52,064	89,024

The notes on pages 32 to 75 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Listing Rules and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRS.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balances sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 31	Interests in joint ventures
HKAS 32	Financial instruments: Disclosure and presentation

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The adoption of new/revised HKFRS (continued)

HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKAS-Int 15	Operating leases – Incentives
HKFRS-Int 4	Determining whether an arrangement contains a lease
HK-Int 4	Leases – Determination of the length of lease term in respect of Hong Kong land leases
HKFRS 2	Share-based payment
HKFRS 3	Business combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37, HKAS-Int 15, HKFRS-Int 4 and HK-Int 4, did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 31, 33, 37, HKAS-Int 15, HKFRS-Int 4 and HK-Int 4 had no material effect on the Group's accounting policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to leasehold land. Interests in leasehold land and buildings were previously classified as "property, plant and equipment" and were carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, a leasehold interest of land and building should be split into a lease of land element and a lease of building element in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease premium is stated at cost less impairment loss and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment loss.

In accordance with the transitional provisions of HKAS 17, comparative amounts on the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold interest in land held for own use.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2(x)(iii)).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2(f)):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

- HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

- HKFRS 3 – prospectively after 1 January 2005.

The effects of the changes in the accounting policies on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Income statement items:		
Expenses in relation to share options granted to directors and employees, included in administrative expenses	**4,459**	–
Depreciation and amortisation, included in administrative expenses	**–**	20
Decrease in profit for the year	**4,459**	20

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The accumulative effect of the application of the new HKFRS on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 31 December 2004 (restated) *HK$'000*	Adjustments *HK$'000*	As at 1 January 2005 (restated) *HK$'000*
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	4,905	(2,688)	2,217	–	2,217
Accumulated depreciation	(1,407)	269	(1,138)	–	(1,138)
Land lease premium	–	2,158	2,158	–	2,158
Impact of HKFRS 3:					
Goodwill	2,826	–	2,826	(1,131)	1,695
Accumulated amortisation of goodwill	(1,131)	–	(1,131)	1,131	–
Impact of HKAS 39:					
Long term unlisted investment	773	–	773	(773)	–
Available-for-sale investments	–	–	–	3,534	3,534
Golf club memberships	2,761	–	2,761	(2,761)	–
Marketable securities	3,307	–	3,307	(3,307)	–
Financial assets at fair value through profit or loss	–	–	–	3,307	3,307
Total effects on assets	**12,034**	**(261)**	**11,773**	**–**	**11,773**
Impact of HKFRS 3:					
Accumulated losses	(49,455)	(261)	(49,716)	30,652	(19,064)
Capital reserve	30,652	–	30,652	(30,652)	–
Total effects on equity	**(18,803)**	**(261)**	**(19,064)**	**–**	**(19,064)**

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The following new Standards or Interpretations have been issued but not yet effective for the current accounting periods. The Group has already commenced an assessment of the impact of these new HKFRS but is still not in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Capital disclosure	1 January 2007
HKAS 19 (Amendment)	Actuarial gains or losses, group plans and disclosures	1 January 2006
HKAS 21 (Amendment)	Net investment in a foreign operation	1 January 2006
HKAS 39 (Amendment)	The fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
HK (IFRIC) – Int 4	Determining whether an arrangement contains a lease	1 January 2006

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2005. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associate

An associate is a Company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The investment in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate. The results of associate is accounted for in the consolidated income statement to the extent of the Group's share of the associate's results of operations.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Jointly Controlled Entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

The Group's share of the post acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(h)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Property, Plant and Equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Property, Plant and Equipment *(continued)*

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	12.5% to 20%

(h) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– land lease premium;

– golf club memberships;

– investments in subsidiaries; and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Impairment of Assets *(continued)*

(iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

(a) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Investments *(continued)*

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(n)).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Investments *(continued)*

From 1 January 2005 onwards: *(continued)*

(d) Available-for-sale financial assets (continued)

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gain or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(k) Marketable Securities

Marketable securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(l) Golf Club Memberships

Golf club memberships are stated at cost less any impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Revenue Recognition

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Rental income is recognised on a time proportion basis over the lease terms.

(iv) Agency and commission income is recognised on the basis that the relevant services have been rendered.

(v) Disposal of marketable securities is recognised on the transaction dates.

(vi) Dividend income is recognised when the shareholders' right to receive payment has been established.

(n) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(h)).

(o) Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Foreign Currencies *(continued)*

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(q) Retirement Scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(t) Income tax expenses

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

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

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

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 profits will be available to allow all or part of the asset to be recovered.

(u) Operating Leases

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessees, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(v) Investment Properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential, these include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value and reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

In prior years, the change in the fair value of investment properties was recognised in the property valuation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement.

(w) Long Term Investments

Long term investments in non-trading investments, unlisted equity securities, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment losses.

When impairment in value has occurred, the carrying amount of the security is reduced to their fair values, as estimated by the directors, and the amounts of the impairment is charged to the income statement for the period in which it arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

(x) Employee Benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(x) Employee Benefits *(continued)*

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(y) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(z) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(z) Segment Reporting *(continued)*

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(aa) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United Stated dollars and Renminbi.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimate of fair value of investment property

The investment property was revalued at the balance sheet date on market value existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

(c) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been charged.

(d) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

(e) Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instruments, the Group uses the market values determined by independent financial institutions or internal or external valuation model to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

5. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the year.

The Group's turnover and revenue for the year arose from the following activities:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**61,531**	140,523
Gross rental income	**285**	430
	61,816	140,953
Other revenue		
Agency and commission income	**–**	178
Dividend income from investments in marketable securities	**520**	27
Interest income from:		
Bank deposits	**3,405**	1,101
Others	**–**	273
Bad debts recovered	**41**	748
Gain on disposal of property, plant and equipment	**–**	38
Gain on disposal of marketable securities	**3,218**	1,944
Unrealised gain on changes in fair values of marketable securities, net	**–**	104
Exchange gain, net	**50**	15
Others	**678**	3,941
Total revenue	**7,912**	8,369

6. SEGMENT INFORMATION

(a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'property investment' and 'corporate and others' is as follows:

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)		(restated)
Segment revenue:								
Sales to external customers	**61,488**	140,510	**25**	169	**303**	274	**61,816**	140,953
Other revenue	**2**	–	**–**	–	**677**	3,941	**679**	3,941
Total	**61,490**	140,510	**25**	169	**980**	4,215	**62,495**	144,894
Segment results	**226**	474	**21**	126	**(16,215)**	(7,122)	**(15,968)**	(6,522)
(Loss)/profit on disposal of jointly controlled entities							**(1,776)**	7,333
Increase in fair value of investment properties							**1,000**	3,600
Interest and dividend income and unallocated gains							**7,234**	4,428
Unallocated expenses							**(2,017)**	(566)
(Loss)/profit from operating activities							**(11,527)**	8,273
Finance costs							**(92)**	(218)
Share of results of jointly controlled entities							**(11,632)**	2,514
(Loss)/profit before taxation							**(23,251)**	10,569
Income tax expenses							–	1,253
(Loss)/profit for the year							**(23,251)**	11,822

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)		(restated)
Segment assets	**2,108**	37,035	**16,045**	14,997	**134,008**	146,038	**152,161**	198,070
Interests in jointly controlled entities	**–**	–	**–**	–	**37,799**	51,207	**37,799**	51,207
Total assets	**2,108**	37,035	**16,045**	14,997	**171,807**	197,245	**189,960**	249,277
Segment liabilities	**2,634**	36,493	**–**	–	**13,649**	20,390	**16,283**	56,883
Other segment information:								
Depreciation and amortisation	**24**	64	**59**	61	**338**	394	**421**	519
Impairment losses recognised in income statement	**–**	–	**–**	–	**–**	–	**–**	–
Other non-cash expenses	**–**	–	**–**	–	**1,695**	566	**1,695**	566
Capital expenditure								
– through acquisition of subsidiaries	**–**	–	**–**	–	**–**	–	**–**	–
– other	**–**	–	**–**	–	**572**	–	**572**	–
Increase in fair value	**–**	–	**1,000**	3,600	**–**	–	**1,000**	3,600

(b) Geographical segments

In determining the Group's geographical segment, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)
Segment revenue:						
Sales to external customers	**285**	430	**61,531**	140,523	**61,816**	140,953
Other segment information:						
Segment assets	**146,088**	156,782	**43,872**	92,495	**189,960**	249,277
Capital expenditure						
– through acquisition of subsidiaries	**–**	–	**–**	–	**–**	–
– others	**572**	–	**–**	–	**572**	–

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000 (restated)
Depreciation	**378**	475
Amortisation of land lease premium	**43**	44
Operating lease payments - land and buildings	**1,976**	1,855
Auditors' remuneration	**203**	150
Amortisation of goodwill	**–**	566
Impairment of goodwill	**1,695**	–
Staff costs (including directors' remuneration – note 9):		
Salaries, allowances and other benefits	**7,625**	7,506
Pension scheme contribution	**257**	244
Share-based payment expenses	**4,459**	–
	12,341	7,750
Increase in fair value of investment properties	**(1,000)**	(3,600)
Rental income from investment properties less direct outgoings of HK$4,000 (2004: HK$49,000)	**(21)**	(120)
Unrealised loss on changes in fair value of financial assets	**539**	–
Loss on disposal of property, plant and equipment	**18**	–

8. FINANCE COSTS

	Group	
	2005 HK$'000	2004 HK$'000
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**92**	26
Other interest paid	**–**	192
	92	218

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

(i) The details of emoluments (including share option benefit) of every Director are shown below:

	Year ended 31 December 2005				
Name of Director	**Fees**	**Basic salaries, allowances and other benefits**	**Share-based payments**	**Pension scheme contribution**	**Total**
	HK$'000	*HK$,000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheung Siu Lam	–	**2,980**	**48**	**12**	**3,040**
Chan Yuk Ming	–	**807**	**477**	**12**	**1,296**
Lo Wan	–	**291**	**48**	**12**	**351**
Yu Hei Wung, Raymond *(Note)*	–	**597**	**333**	**10**	**940**
Wang Jian Sheng	**40**	–	–	–	**40**
Chan Chun Keung	**40**	–	–	–	**40**
Tang Tse Yee, Kennedy	**50**	–	–	–	**50**
	130	**4,675**	**906**	**46**	**5,757**

Note: Re-designated from executive director to non-executive director with effect from 1 August 2005

	Year ended 31 December 2004				
Name of Director	Fees	Basic salaries, allowances and other benefits	Share-based payments	Pension scheme contribution	Total
	HK$'000	*HK$,000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheung Siu Lam	–	2,980	–	12	2,992
Chan Yuk Ming	–	807	–	12	819
Lo Wan	–	291	–	12	303
Yu Hei Wung, Raymond	–	938	–	12	950
Wang Jian Sheng	10	–	–	–	10
Chan Chun Keung	10	–	–	–	10
Tang Tse Yee, Kennedy *(Note 1)*	13	–	–	–	13
Choy Ming Yuk *(Note 2)*	–	–	–	–	–
	33	5,016	–	48	5,097

Notes:

1. Appointed on 9 September 2004

2. Resigned on 27 August 2004

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2005 (2004: Nil).

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

(ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	**5,183**	5,317
Pension scheme contributions	**58**	60
Share-based payments	**1,230**	–
	6,471	5,377

	2005	2004
Number of directors	**3**	4
Number of employees	**2**	1
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2005	2004
Nil – HK$1,000,000	**4**	4
HK$1,000,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$4,000,000	**1**	–
	5	5

10. INCOME TAX EXPENSES

(a) The income tax expenses in the consolidated income statement represents:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax		
Tax for the year	–	-
Over/(under)provision in prior years	–	1,255
	–	1,255
Provision for PRC income tax		
Tax for the year	–	(2)
Tax credit for the year	–	1,253

The tax credit for the year can be reconciled to the (loss)/profit before taxation per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
(Loss)/profit before taxation	**(23,251)**	10,569
Calculated at a taxation rate of 17.5%	**(4,069)**	1,849
Effect of different taxation rate in other countries	**(1,803)**	392
Income not subject to taxation	**(530)**	(3,605)
Expenses not deductible for taxation purposes	**4,667**	368
Utilisation of tax losses previously not recognised	**(663)**	(581)
Deferred tax assets not recognised	**2,414**	1,579
(Over)/under provision in prior years	–	(1,255)
Reversal of temporary difference	**(16)**	–
Tax credit	–	(1,253)

No Hong Kong profits tax has been provided for in the financial statements as the Group has no assessable profits for the year (2004: Nil).

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

10. INCOME TAX EXPENSES *(continued)*

(b) Taxation in the consolidated balance sheet represents:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong provision for the year	**–**	–
PRC taxation provision for the year	**–**	–
Provisional tax paid	**–**	–
Refund of tax	**–**	–
Overprovision in prior years	**–**	(1,255)
	–	(1,255)
Balance of provision relating to prior years	**–**	1,255
	–	–

11. LOSS/(PROFIT) FOR THE YEAR

The (loss)/profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is net loss of HK$12,109,000 (2004: net loss of HK$8,655,000).

12. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

13. LOSS/(EARNINGS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(i) The calculation of basic loss/(earnings) per share for the year is based on the net loss attributable to equity holders of the Company for the year of HK$23,251,000 (2004 (restated): net profit of HK$11,822,000) and the weighted average number of 1,020,125,011(2004: 872,470,244) shares in issue during the year.

(ii) The calculation of basic earnings per share for the year 2004 has been restated to take into account the effect of rights issue during the year ended 31 December 2004.

(iii) The calculation of diluted loss per share is based on the net loss attributable to equity holders of the Company for the year of HK$23,251,000 and the weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic loss per share calculation and the weighted number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share option outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2004	4,905	776	2,226	963	8,870
Effect on adoption of HKAS 17	(2,688)	–	–	–	(2,688)
Disposals	–	–	–	(543)	(543)
At 31/12/2004 (restated)	2,217	776	2,226	420	5,639
Accumulated depreciation					
At 1/1/2004	1,346	474	1,480	222	3,522
Effect on adoption of HKAS 17	(245)	–	–	–	(245)
Charge for the year (restated)	37	76	271	91	475
Written back on disposal	–	–	–	(39)	(39)
At 31/12/2004 (restated)	1,138	550	1,751	274	3,713
Net book value					
At 31/12/2004 (restated)	1,079	226	475	146	1,926

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2005 (restated)	2,217	776	2,226	420	5,639
Additions	–	–	538	34	572
Disposals	–	–	(280)	–	(280)
Exchange adjustment	–	–	–	2	2
At 31/12/2005	**2,217**	**776**	**2,484**	**456**	**5,933**
Accumulated depreciation					
At 1/1/2005 (restated)	1,138	550	1,751	274	3,713
Charge for the year	38	75	207	58	378
Written back on disposal	–	–	(112)	–	(112)
Exchange adjustment	–	–	–	1	1
At 31/12/2005	**1,176**	**625**	**1,846**	**333**	**3,980**
Net book value					
At 31/12/2005	**1,041**	**151**	**638**	**123**	**1,953**

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The cost of the Group's buildings, which are held under long term leases, is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Situated in:		
Hong Kong	**344**	354
PRC	**697**	725
	1,041	1,079

Company

	Leasehold improvements	**Motor vehicle**	**Furniture and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2004 and at 31/12/2004	378	768	130	1,276
Accumulated depreciation				
At 1/1/2004	76	307	26	409
Charge for the year	75	154	26	255
At 31/12/2004	151	461	52	664
Net book value				
At 31/12/2004	227	307	78	612

	Leasehold improvements	**Motor vehicle**	**Furniture and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2005	378	768	130	1,276
Additions	–	–	34	34
At 31/12/2005	**378**	**768**	**164**	**1,310**
Accumulated depreciation				
At 1/1/2005	151	461	52	664
Charge for the year	76	154	32	262
At 31/12/2005	**227**	**615**	**84**	**926**
Net book value				
At 31/12/2005	**151**	**153**	**80**	**384**

15. LAND LEASE PREMIUM

The Group's interests in land lease premium represent prepaid operating lease payments and their net book value are analysed as follows:

	2005 *HK$'000*	2004 *HK$'000* (restated)
Cost		
At 1 January	**2,688**	–
Effect on adoption of HKAS 17	**–**	2,688
At 31 December	**2,688**	2,688
Accumulated amortisation		
At 1 January	**530**	–
Effect on adoption of HKAS 17	**–**	486
Amortisation for the year	**43**	44
At 31 December	**573**	530
Net carrying amount		
At 31 December	**2,115**	2,158
Leases of between 10 to 50 years, held in:		
Hong Kong	**974**	997
PRC	**1,141**	1,161
	2,115	2,158

16. INVESTMENT PROPERTY

	Group	
	2005 *HK$'000*	2004 *HK$'000*
At valuation:		
Balance at beginning of year	**11,500**	7,900
Increase in fair value	**1,000**	3,600
Balance at end of year	**12,500**	11,500

The Group's investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2005 by A.G. Wilkinson Associates, an independent qualified valuers, on an open market, existing use basis.

The investment property is leased to a third party under operating lease, further summary details of which are included in note 32(a) to the financial statements.

The Group's investment property was pledged to the Company's banker to secure banking facilities granted to the Group.

17. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**33,049**	33,049
Less: Impairment loss	**(19,250)**	(19,250)
	13,799	13,799

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	Ordinary US$12	100	–	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of chemical fertilisers
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US$2	–	100	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100	Provision of internal financial services
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of agricultural products
上海港佳倍盛經貿有限公司# *(Note 1)*	PRC	RMB2,000,000	–	100	General trading
上海綠葉生物高科技有限公司 *(Note 2)*	PRC	US$200,000	–	100	Processing and trading of chemical fertilisers
Wainwright International Limited	BVI/Hong Kong	US$2	–	100	Investment trading
South Asian Power Investment Limited	Hong Kong	HK$2	–	100	Dormant

Not audited by CCIF CPA Limited

Notes:

(1) 上海港佳倍盛經貿有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

(2) 上海綠葉生物高科技有限公司 is a wholly foreign owned enterprise established in the PRC to be operated for 14 years up to October 2013.

18. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**–**	–

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group 2005	2004	Principal activities
Taicang Huifeng Chemical Fertilizer Company Limited	Corporate	PRC	**30**	30	Processing and trading of chemical fertilisers

Taicang Huifeng Chemical Fertilizer Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 11 years up to May 2006.

The associate is not audited by CCIF CPA Limited.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**34,508**	47,916

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's interest in the jointly controlled entities are as follows:

Name	Business structure	Place of establishment and operations	Value of issued share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Guangzhou Yuexiu Beatrice Convenience Chain Stores Co., Ltd. (formerly known as Guangzhou Yue Xiu Supermarket Co., Ltd.) *(Note a)*	Corporate	PRC	Registered capital RMB56,555,258	– (2004: 26.01%)	–	– (2004: 26.01%)	Supermarket chain stores operation
海口港佳貿易有限公司 *(Note b)*	Corporate	PRC	Registered capital US$1,000,000	51%	–	51%	Investment holding
K.P.I. (BVI) Retail Management Company Limited	Corporate	BVI	US$50,000,000	51%	–	51%	Investment holding
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands	US$50,000	– (2004: 26.01%)	–	– (2004: 26.01%)	Investment holding
K.P.I. Convenience Retail Company Limited	Corporate	BVI	US$50,000	50%	–	50%	Dormant
Lantis Trading Corporation	Corporate	BVI	US$10	– (2004: 26.01%)	–	– (2004: 26.01%)	Investment holding
華聯集團吉買盛購物中心有限公司 *(Note c)*	Corporate	PRC	Registered capital RMB80,000,000	20.4%	–	20.4%	Supermarket chain stores operation
上海華聯港佳商業經營管理有限公司# *(Note d)*	Corporate	PRC	Registered capital US$700,000	24.99%	–	24.99%	Investment holding

Not audited by CCIF CPA Limited

Notes:

(a) Guangzhou Yue Xiu Beatrice Convenience Chain Stores Company Limited (formerly known as Guangzhou Yue Xiu Supermarket Company Limited) is a Sino-foreign equity joint venture established in the PRC to be operated for 20 years up to December 2018.

(b) 海口港佳貿易有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

(c) 華聯集團吉買盛購物中心有限公司 is a equity joint venture established in the PRC to be operated for 20 years up to March 2016.

(d) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint established in the PRC to be operated for 25 years up to April 2021.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Summary financial information on jointly controlled entity – Group's effective interest:

	K.P.I. (BVI) Retail Management Company Limited	
	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**4,219**	14,018
Current assets	**32,737**	35,834
Current liabilities	**(2,021)**	(1,908)
Net assets	**34,935**	47,944
Income	**172**	11,974
Expenses	**(13,580)**	(2,127)
(Loss)/profit for the year	**(13,408)**	9,847

20. GOODWILL

	Group	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At 1 January	**2,826**	2,826
Effect of changes in HKFRS 3	**(1,131)**	–
At 31 December	**1,695**	2,826
Accumulated amortisation		
At 1 January	**1,131**	565
Effect of changes in HKFRS 3	**(1,131)**	–
Amortisation for the year	**–**	566
Impairment of goodwill	**1,695**	–
At 31 December	**1,695**	1,131
Net book value		
At 31 December	**–**	1,695

21. AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS/GOLF CLUB MEMBERSHIPS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments:		
– Golf club memberships, at cost	**3,676**	3,676
Less: Impairment loss	**(915)**	(915)
	2,761	2,761
– Long term investments, at cost	**773**	773
Total	**3,534**	3,534
Carrying amount analysed for reporting purposes as:		
Long term unlisted investment	**–**	773
Golf club memberships	**–**	2,761
Non-current available-for-sale investments	**3,534**	–
	3,534	3,534

Upon the application of HKAS 39 on 1 January 2005, the Group's golf club memberships and long term investments as at 31 December 2004 were reclassified to available-for-sale investments (see note 2(a)).

22. FINANCIAL ASSETS AT VALUE THROUGH PROFIT OR LOSS/MARKETABLE SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed securities – Hong Kong	**7,881**	3,307
Unlisted securities – Hong Kong	**8,564**	–
	16,445	3,307
Held for trading	**7,881**	3,307
Designated as fair value through profit or loss on initial recognition	**8,564**	–
	16,445	3,307
Carrying amount analysed for reporting purposes as:		
Marketable securities	**–**	3,307
Financial assets at fair value through profit or loss	**16,445**	–
	16,445	3,307

Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

Following the adoption of HKAS 39 in 2005, the marketable securities were designated as financial assets at fair value through profit or loss on 1 January 2005. There was no such re-designation in 2004 as retrospective application of HKAS 39 is not permitted.

23. TRADE AND BILLS RECEIVABLES

The aging of the Group's trade and bills receivables is analysed as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outstanding balances with ages		
Current	**–**	–
1 to 3 months overdue	**–**	34,552
More than 3 months overdue but less than 12 months overdue	**–**	70
Overdue more than 1 year	**–**	–
	–	34,622

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**3,323**	5,349	**1,299**	3,104
Time deposits	**86,641**	120,443	**83,317**	120,443
	89,964	125,792	**84,616**	123,547
Less: Pledged time deposits against short term bank loans and trust receipts	**(37,900)**	(36,768)	**(37,900)**	(36,768)
Cash and cash equivalents	**52,064**	89,024	**46,716**	86,779

25. TRADE AND BILLS PAYABLES

The aging of the Group's trade and bills payable is analysed as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**–**	–
Due after 1 month but within 3 months	**–**	35,351
Due after 3 months but within 6 months	**–**	–
	–	35,351

26. DEFERRED TAX

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of tax losses of HK$15,192,000 (2004: HK$13,340,000). The unrecognised tax losses, mainly to Hong Kong companies, can be carried forward indefinitely.

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

28. AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES

The amounts due from/(to) jointly controlled entities are unsecured, non-interest bearing and have no fixed terms of repayment.

29. SHARE CAPITAL

	2005		2004	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Authorised				
Ordinary share of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid				
At 1 January	**1,015,877,336**	**101,588**	677,251,557	67,725
Right issue of one new share for every two existing shares	**–**	**–**	338,625,779	33,863
At 31 December	**1,015,877,336**	**101,588**	1,015,877,336	101,588

30. SHARE OPTIONS

The company has a share option scheme which was adopted on 7 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to taken up options at nil consideration to subscribe for shares of the Company. The options vest from the date of grant and are then exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors:			
– on 2 February 2005	19,000,000	From the date of grant	10 years
Options granted to employees:			
– on 10 January 2005	48,500,000	From the date of grant	10 years
– on 1 September 2005	32,000,000	From the date of grant	10 years
Total share options	99,500,000		

(b) The number and weighted average exercise price of share options are as follows:

	2005		2004	
	Weighted average exercise price	**Number of options *'000***	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Granted during the year	**0.138**	**99,500**	–	–
Outstanding at the end of the year	**0.138**	**99,500**	–	–
Exercisable at the end of the year	**0.138**	**99,500**	–	–

The options outstanding at 31 December 2005 had an exercise price of HK$0.126, HK$0.138 or HK$0.156 (2004: Not applicable) and a weighted average remaining contractual life of 8.43 years (2004: Not applicable).

30. SHARE OPTIONS *(continued)*

(c) Fair value of share options and assumptions:

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	2005		
	31 January	**28 February**	**13 September**
Fair value of options granted	HK$0.04247	HK$0.04768	HK$0.04666
Inputs into the binomial pricing model:			
Share price at grant date	HK$0.131	HK$0.147	HK$0.144
Exercise price	HK$0.126	HK$0.138	HK$0.156
Expected volatility	107%	107%	107%
Expected life	6 years	6 years	6 years
Risk-free interest rate	3.62%	3.85%	4.10%
Expected dividend per share	–	–	–

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

31. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Share-based compensation reserve HK$'000	Statutory public welfare reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004								
– as previously reported	108,663	30,652	–	173	2,613	205	(61,297)	81,009
– effect of change in accounting policies	–	–	–	–	–	–	(241)	(241)
– as restated	108,663	30,652	–	173	2,613	205	(61,538)	80,768
Issuing expenses	(1,784)	–	–	–	–	–	–	(1,784)
Profit for the year (as restated)	–	–	–	–	–	–	11,822	11,822
At 31 December 2004 (as restated)	106,879	30,652	–	173	2,613	205	(49,716)	90,806
At 1 January 2005								
– as previously reported	106,879	30,652	–	173	2,613	205	(49,455)	91,067
– effect of change in accounting policies	–	–	–	–	–	–	(261)	(261)
– opening adjustment for the adoption of HKFRS 3	–	(30,652)	–	–	–	–	30,652	–
– as restated	106,879	–	–	173	2,613	205	(19,064)	90,806
Exchange adjustment	–	–	–	–	75	–	–	75
Employee share option benefits	–	–	4,459	–	–	–	–	4,459
Loss for the year	–	–	–	–	–	–	(23,251)	(23,251)
At 31 December 2005	**106,879**	**–**	**4,459**	**173**	**2,688**	**205**	**(42,315)**	**72,089**

31. RESERVES *(continued)*

	2005 HK$'000	2004 HK$'000 (restated)
Accumulated losses retained by:		
Company and its subsidiaries	**(5,499)**	(26,308)
An associate	**–**	–
Jointly controlled entities	**(36,816)**	(23,408)
	(42,315)	(49,716)

Company

	Share premium HK$'000	Share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1/1/2004	108,663	–	(43,504)	65,159
Issuing expenses	(1,784)	–	–	(1,784)
Loss for the year	–	–	(8,655)	(8,655)
At 31/12/2004 and 1/1/2005	106,879	–	(52,159)	54,720
Loss for the year	–	–	(12,109)	(12,109)
Employee share option benefits	–	4,459	–	4,459
At 31/12/2005	**106,879**	**4,459**	**(64,268)**	**47,070**

At 31 December 2005, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 16 to the financial statements) and golf club membership under operating lease arrangements, with leases negotiated for terms one year for investment properties and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**62**	58
In the second to fifth years, inclusive	**12**	–
	74	58

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 3 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,131**	1,747	**1,114**	1,731
In the second to fifth years, inclusive	**67**	1,182	**–**	1,114
After the fifth years	**21**	38	**–**	–
	1,219	2,967	**1,114**	2,845

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

(a) Related party transactions included in the profit and loss account

	2005	2004
	HK$'000	*HK$'000*
Rental expenses to a company controlled by directors	**996**	996
Rental income from a jointly controlled entity	**(156)**	(156)

Notes:

(i) Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

(ii) Rental income was received from a jointly controlled entity. The monthly rental was mutually agreed by both parties.

(b) Related party transactions included in the balance sheet

	2005	2004
	HK$'000	*HK$'000*
Amounts due from jointly controlled entities	**3,291**	3,291
Amounts due to jointly controlled entities	**(4,495)**	(10,382)

(c) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	**2,980**	3,918
Pension scheme contribution	**12**	24
Share-based payments expenses	**48**	–
	3,040	3,942

Note: Further details of pension scheme contribution and directors' emoluments are included in note 9 to the financial statements.

34. BANKING FACILITIES

Banking facilities utilised by one of the subsidiaries and guaranteed by the Company amounting to nil (2004: HK$33,733,000).

35. SUBSEQUENT EVENT

Subsequent to the balance sheet date, on 31 March 2006, the Company's subsidiary, K.P.B. Marketing Limited entered into a loan agreement (the "Loan Agreement") with a third party, Mr. Zhang Qizhong (the "Borrower"), to lend to the Borrower a maximum aggregate principal amount of RMB60,000,000 (equivalent to HK$57,720,058) (the "Loan"). The Loan will be made available to the Borrower for the period commencing on 31 March 2006 and ending on the earlier of one year from the date of the Loan Agreement or the date on which the Loan is fully drawn, cancelled or terminated. The Loan will bear interest of 15% per annum.

36. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through its direct shareholding as being the ultimate controlling party.

37. COMPARATIVE FIGURES

Certain items in the financial statements were reclassified as a result of the changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with the current years' presentation.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		
Results					
Turnover	**61,816**	140,953	296,151	72,809	1,231,885
(Loss)/profit for the year	**(23,251)**	11,822	10,337	(35,863)	(74,319)
Assets and liabilities					
Total assets	**189,960**	249,277	219,552	177,864	231,368
Total liabilities	**(16,283)**	(56,883)	(70,818)	(13,746)	(30,997)
	173,677	192,394	148,734	164,118	200,371