



## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was principally involved in the manufacturing of steel cords and processing and trading of copper and brass products.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and land use rights.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### Basis of consolidation

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

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

## Notes to Financial Statements

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate as at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to consolidated income statement in the period in which those losses or expense arise. The remaining negative goodwill is recognised in consolidated income statement on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity or an associate is deducted from the carrying value of that jointly controlled entity or associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments in subsidiaries

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

#### Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity in so far as it has not already been written off, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

## Notes to Financial Statements

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties (continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

#### Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and identified impairment loss.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises the direct costs of construction and borrowing costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the estimated useful life of 25 to 70 years
Leasehold improvements	20% – 25%
Plant and machinery	4% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### Land use rights

Land use rights are stated at valuation less accumulated amortisation and any identified impairment loss, and are amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKAS, in which case the impairment loss is treated as a revaluation decrease under that HKAS.

## Notes to Financial Statements

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKAS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKAS.

#### Club memberships

Club memberships are stated at cost less any identified impairment loss.

#### Investments in securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at cost, as reduced by any impairment loss that is other than temporary.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method for steel cord and weighted average method for copper and brass products and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

#### Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.



### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Taxation (continued)

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

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

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

#### Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

Dividend income is recognised when the shareholder's right to receive payment has been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

#### Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental income and expense is recognised on a straight-line basis over the relevant lease term.

# Notes to Financial Statements

For the year ended 31 December 2004

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

### 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 borrowings costs are recognised as expenses in the period in which they are incurred.

### Retirement benefit costs

Payments to defined contribution Mandatory Provident Fund Scheme and all other retirement scheme or similar defined contribution provident fund are charged as expenses as they fall due.





## 4. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, and gross rental income during the year.

An analysis of the Group's turnover is as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of goods		
Manufacturing of steel cord	266,262	218,463
Processing and trading of copper and brass products	159,674	77,715
Others	1,511	791
	<u>427,447</u>	<u>296,969</u>
Rental income	417	302
	<u>427,864</u>	<u>297,271</u>

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the steel cord segment comprises the manufacturing of steel cords;
- (ii) the copper and brass products segment comprises the processing and trading of copper and brass products; and
- (iii) the corporate segment comprises the Group's management services business, which provides corporate management service, together with corporate income and expense item. The segment of others mainly comprises property investment and the manufacturing of pre-stressed concrete strands and wires.

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

## Notes to Financial Statements

For the year ended 31 December 2004

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

Segment information about these businesses is presented below:

**For the year ended 31 December 2004**

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	266,262	159,674	1,928	427,864
Other operating income	751	1,157	3,850	5,758
Total	<u>267,013</u>	<u>160,831</u>	<u>5,778</u>	<u>433,622</u>
Result				
Segment result	<u>82,650</u>	<u>10,196</u>	<u>(10,079)</u>	82,767
Unallocated corporate income and expenses, net				<u>(2,064)</u>
Profit from operations				80,703
Finance costs				(4,463)
Gain on disposal of subsidiaries	–	–	76,651	76,651
Loss on disposal of interest in a jointly controlled entity	–	–	(9,410)	(9,410)
Share of results of jointly controlled entities	–	–	7,833	7,833
Share of result of an associate	–	–	4,562	4,562
Profit before taxation				155,876
Income tax expenses				<u>(7,762)</u>
Profit before minority interests				148,114
Minority interests				<u>–</u>
Net profit attributable to shareholders				<u>148,114</u>



## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

For the year ended 31 December 2004

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	183,988	311	1,167	185,466
Depreciation and amortisation	26,918	1,107	422	28,447
Allowance for bad and doubtful debts	<u>3,159</u>	<u>373</u>	<u>2</u>	<u>3,534</u>
BALANCE SHEET				
Assets				
Segment assets	704,135	72,986	39,150	816,271
Interest in a jointly controlled entity	–	–	44,883	44,883
Interest in an associate	–	–	45,620	45,620
Goodwill	41,672	–	–	41,672
Club memberships	–	–	675	<u>675</u>
Consolidated total assets				<u>949,121</u>
Liabilities				
Segment liabilities	14,400	6,819	3,801	25,020
Unallocated corporate liabilities				<u>281,944</u>
Consolidated total liabilities				<u>306,964</u>

## Notes to Financial Statements

For the year ended 31 December 2004

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

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	218,463	77,715	1,093	297,271
Other operating income	(287)	1,851	1,562	3,126
Total	<u>218,176</u>	<u>79,566</u>	<u>2,655</u>	<u>300,397</u>
Result				
Segment result	<u>92,186</u>	<u>3,590</u>	<u>(12,286)</u>	83,490
Unallocated corporate income and expenses, net				<u>(212)</u>
Profit from operations				83,278
Finance costs				(3,178)
Share of results of jointly controlled entities	–	–	6,847	6,847
Share of result of an associate	–	–	5,251	<u>5,251</u>
Profit before taxation				92,198
Income tax expenses				<u>(8,468)</u>
Profit before minority interests				83,730
Minority interests				<u>(17,638)</u>
Net profit attributable to shareholders				<u>66,092</u>



## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### (a) Business segments (continued)

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	69,995	851	2,639	73,485
Depreciation and amortisation	24,708	909	367	25,984
Allowance for bad and doubtful debts	26	120	–	146
Other non-cash expenses (income)	<u>287</u>	<u>(1,851)</u>	<u>(661)</u>	<u>(2,225)</u>
BALANCE SHEET				
Assets				
Segment assets	510,207	49,854	27,867	587,928
Interests in jointly controlled entities	–	–	48,911	48,911
Interests in associates	–	–	44,813	44,813
Goodwill	43,894	–	–	43,894
Club memberships	–	–	675	<u>675</u>
Consolidated total assets				<u>726,221</u>
Liabilities				
Segment liabilities	8,238	6,530	4,768	19,536
Unallocated corporate liabilities				<u>112,815</u>
Consolidated total liabilities				<u>132,351</u>

## Notes to Financial Statements

For the year ended 31 December 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (b) Geographical segments

	Hong Kong		Other regions				Consolidated	
			in the PRC		Others			
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	60,370	43,525	365,633	253,444	1,444	–	427,447	296,969
Gross rental income	417	302	–	–	–	–	417	302
	<b>60,787</b>	<b>43,827</b>	<b>365,633</b>	<b>253,444</b>	<b>1,444</b>	<b>–</b>	<b>427,864</b>	<b>297,271</b>
Other segment information:								
Segment assets	127,538	95,712	731,080	536,785	–	–	858,618	632,497
Interest in jointly controlled entities	–	–	44,883	48,911	–	–	44,883	48,911
Interest in associates	–	–	45,620	44,813	–	–	45,620	44,813
Capital expenditure	764	47,106	184,702	26,379	–	–	185,466	73,485



## 6. PROFIT FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Cost of inventories sold	<b>307,858</b>	190,813
Staff costs, including directors' remuneration (note 7):		
– Salaries, wages and other benefits	<b>30,305</b>	22,772
– Retirement benefit scheme contributions	<b>1,133</b>	875
Total staff costs	<b>31,438</b>	23,647
Depreciation		
– Owned assets	<b>25,332</b>	24,396
– Leased assets	<b>102</b>	418
Auditors' remuneration	<b>440</b>	400
Amortisation of land use rights (included in "Cost of sales")	<b>791</b>	614
Amortisation of goodwill (included in "Other operating expenses")	<b>2,222</b>	556
Foreign exchange losses, net	<b>158</b>	455
Loss on disposal of property, plant and equipment, net	–	33
and after crediting:		
Surplus on revaluation of investment properties	<b>580</b>	386
Surplus on revaluation of leasehold land and buildings, net	<b>1,995</b>	1,839
Gross rental income	<b>417</b>	302
Less: outgoings	<b>(13)</b>	(55)
Net rental income	<b>404</b>	247
Interest income	<b>159</b>	377

## Notes to Financial Statements

For the year ended 31 December 2004

**7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****(a) Directors' emoluments**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	<b>60</b>	40
	<b>60</b>	40
Other emoluments of executive directors:		
Salaries and other benefits	<b>4,609</b>	4,722
Retirement benefit scheme contributions	<b>20</b>	12
Discretionary bonus	<b>750</b>	–
	<b>5,379</b>	4,734
Total directors' emoluments	<b>5,439</b>	4,774

The amounts disclosed above include directors' fees of HK\$60,000 (2003: HK\$40,000) payable to the independent non-executive directors.

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Nil to HK\$1,000,000	<b>8</b>	6
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	<b>3</b>	2
	<b>11</b>	9





## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

### (b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: two) highest paid individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,320	1,320
Retirement benefit scheme contributions	24	24
	<b>1,344</b>	<b>1,344</b>

Their emoluments were within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	<b>2</b>	<b>2</b>

## 8. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	6,509	2,014
Interest on finance leases	34	64
Other finance costs	–	1,100
Total borrowing costs	<b>6,543</b>	3,178
Less: Amounts capitalised in construction in progress	<b>(2,080)</b>	–
	<b>4,463</b>	<b>3,178</b>

## Notes to Financial Statements

For the year ended 31 December 2004

## 9. INCOME TAX EXPENSES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong	–	–
Other regions in the PRC	<b>6,361</b>	6,397
	<b>6,361</b>	6,397
Under (over) provision in prior years:		
Hong Kong	<b>16</b>	–
Other regions in the PRC	<b>(311)</b>	–
	<b>6,066</b>	6,397
Deferred taxation ( <i>note 27</i> ):		
Current year	<b>(80)</b>	71
Attributable to change in tax rate	–	78
	<b>(80)</b>	149
Taxation attributable to the Company and its subsidiaries	<b>5,986</b>	6,546
Share of taxation attributable to a jointly controlled entity	<b>1,068</b>	1,214
Share of taxation attributable to an associate	<b>708</b>	708
	<b>7,762</b>	8,468

No tax is payable on profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward. Tax losses carried forward amounted to approximately HK\$57,425,000 (2003: HK\$51,695,000).

Taxation in the PRC is calculated at the rates prevailing in the PRC. Certain subsidiaries, jointly controlled entities and associate of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.



## 9. INCOME TAX EXPENSES (continued)

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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<b>155,876</b>		<b>92,198</b>	
Tax at domestic income tax rate of 15% (2003: 15%)	<b>23,381</b>	<b>15.00</b>	13,830	15.00
Tax effect of expenses not deductible in determining taxable profit	<b>2,184</b>	<b>1.40</b>	948	1.03
Tax effect of income not taxable in determining taxable profit	<b>(11,957)</b>	<b>(7.67)</b>	(1,155)	(1.25)
Tax effect of tax losses not recognised	<b>2,231</b>	<b>1.43</b>	2,030	2.20
Tax effect of recognition of tax losses previously not recognised	-	-	(255)	(0.28)
Tax effect of recognition of deferred tax assets previously not recognised	<b>(362)</b>	<b>(0.23)</b>	(413)	(0.45)
Tax effect on utilisation of tax losses previously not recognised	<b>(1,112)</b>	<b>(0.71)</b>	(112)	(0.12)
Tax effect on share of results of jointly controlled entities	<b>(107)</b>	<b>(0.07)</b>	187	0.20
Tax effect on share of result of an associate	<b>24</b>	<b>0.01</b>	(80)	(0.09)
Effect of tax exemptions granted to subsidiaries	<b>(6,348)</b>	<b>(4.07)</b>	(6,366)	(6.90)
Effect of different tax rates in other jurisdictions	<b>(49)</b>	<b>(0.03)</b>	(224)	(0.24)
Effect of change in tax rates	-	-	78	0.08
Others	<b>(123)</b>	<b>(0.08)</b>	-	-
Tax expense and effective tax rate for the year	<b>7,762</b>	<b>4.98</b>	<b>8,468</b>	<b>9.18</b>

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties and land use rights has been charged directly to equity (see note 27).

## Notes to Financial Statements

For the year ended 31 December 2004

**10. DIVIDENDS**

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Ordinary shares:		
Interim dividend paid – HK2.0 cents per share with scrip option (2003: HK1.5 cents per share)	<b>20,351</b>	15,238
Final dividend paid – HK2.0 cents per share in respect of previous financial year	<b>20,351</b>	–
	<b>40,702</b>	15,238

The final dividend of HK1.5 cents (2003: HK2.0 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

**11. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>THE GROUP</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Profit for the year for the purpose of calculation of basic and diluted earnings per share	<b>148,114</b>	66,092
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>1,019,614,692</b>	881,110,017
Effect of dilutive potential ordinary shares:		
Share options	<b>103,108,012</b>	63,319,274
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>1,122,722,704</b>	944,429,291



## 12. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	HK\$'000
At 1 January 2004	8,386
Surplus on revaluation	<u>580</u>
At 31 December 2004	<b><u>8,966</u></b>

Investment properties were valued at their open market value at 31 December 2004 by Vigers International Property Consultant ("Vigers International"), an independent professional valuer. This valuation gave rise to a revaluation increase of HK\$580,000 which has been credited to the consolidated income statement as a deficit has previously been charged to the consolidated income statement.

The carrying amount of investment properties comprises land and buildings in Hong Kong and other regions in the PRC as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	`2003
	<b>HK\$'000</b>	HK\$'000
Long-term lease in Hong Kong	<b>4,720</b>	4,140
Medium-term lease in other regions in the PRC	<b>4,246</b>	<u>4,246</u>
	<b><u>8,966</u></b>	<b><u>8,386</u></b>

Investment properties situated in Hong Kong are rented out under operating leases, while investment properties situated in other regions in the PRC are vacant.

## Notes to Financial Statements

For the year ended 31 December 2004

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
COST OR VALUATION							
At 1 January 2004	49,718	1,135	366,283	6,658	7,321	27,386	458,501
Additions	-	1,005	1,715	885	-	181,861	185,466
Reclassifications	16,353	-	192,357	102	-	(208,812)	-
Disposals	-	-	-	(3,052)	(381)	-	(3,433)
Surplus on revaluation, net	140	-	-	-	-	-	140
Disposal of subsidiaries	(4,340)	-	-	-	-	-	(4,340)
At 31 December 2004	61,871	2,140	560,355	4,593	6,940	435	636,334
Comprising:							
At cost	15,080	2,140	560,355	4,593	6,940	435	589,543
At valuation	46,791	-	-	-	-	-	46,791
	61,871	2,140	560,355	4,593	6,940	435	636,334
ACCUMULATED DEPRECIATION							
At 1 January 2004	-	988	125,217	5,319	4,884	-	136,408
Provided for the year	2,327	95	22,167	422	423	-	25,434
Eliminated on disposals	-	-	-	(3,051)	(343)	-	(3,394)
Write-back on revaluation	(2,223)	-	-	-	-	-	(2,223)
Write-back on disposal of subsidiaries	(104)	-	-	-	-	-	(104)
At 31 December 2004	-	1,083	147,384	2,690	4,964	-	156,121
NET BOOK VALUE							
At 31 December 2004	61,871	1,057	412,971	1,903	1,976	435	480,213
At 31 December 2003	49,718	147	241,066	1,339	2,437	27,386	322,093



### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment HK\$'000	
<b>THE COMPANY</b>		
COST		
At 1 January 2004 and at 31 December 2004		276
ACCUMULATED DEPRECIATION		
At 1 January 2004 and at 31 December 2004		276
NET BOOK VALUE		
At 31 December 2003 and at 31 December 2004		—
<b>THE GROUP</b>		
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The carrying amount of leasehold land and buildings comprises:		
Medium-term leases in Hong Kong	<b>8,400</b>	7,000
Long-term leases in other regions in the PRC	<b>1,415</b>	1,415
Medium-term leases in other regions in the PRC	<b>52,056</b>	41,303
	<b>61,871</b>	49,718

At 31 December 2004, certain buildings and structures of approximately HK\$15,080,000, included in the leasehold land and buildings of the Group in other regions in the PRC, are stated at cost. No revaluation has been performed since the respective building ownership certificate had not yet been obtained. The directors have considered the carrying amounts of these leasehold land and buildings and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current year.

Other leasehold land and buildings of the Group were valued at 31 December 2004 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

## Notes to Financial Statements

For the year ended 31 December 2004

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

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$65,071,000 (2003: HK\$57,956,000).

The net book value of property, plant and machinery includes plant and machinery of HK\$382,000 (2003: HK\$1,601,000) held under finance leases. As at 31 December 2003, motor vehicle of HK\$303,000 was held under finance leases.

**14. LAND USE RIGHTS**

	<b>THE GROUP</b>
	HK\$'000
VALUATION	
At 1 January 2004 and at 31 December 2004	16,981
ACCUMULATED AMORTISATION	
At 1 January 2004	–
Provided during the year	791
Write-back on revaluation	(791)
At 31 December 2004	–
NET BOOK VALUE	
At 31 December 2004	16,981
At 31 December 2003	16,981

The Group's land use rights have a tenure of 30 years and are related to land used by the Group's subsidiary in the PRC.

The Group's land use rights were revalued at 31 December 2004 by Vigers International on an open market value basis. A revaluation surplus of HK\$791,000 resulting from the above valuation has been credited to the land use rights revaluation reserve. Had these land use rights been carried at cost less accumulated amortisation, the carrying amount of the land use rights would have been included in the financial statements at approximately HK\$7,623,000 (2003: HK\$8,005,000).





## 14. LAND USE RIGHTS (continued)

As at 31 December 2004, the Group's land use rights with a net book value of approximately HK\$16,981,000 were pledged to secure certain bank borrowings granted to the Group. The land use rights had not been pledged as at 31 December 2003.

## 15. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>6,778</b>	2,769
Amounts due from subsidiaries	<b>711,796</b>	696,316
	<b>718,574</b>	699,085
Less: Allowances for amounts due from subsidiaries	<b>(203,816)</b>	(203,814)
	<b>514,758</b>	495,271
Less: Current portion of amount due from a subsidiary	<b>(31,000)</b>	(23,000)
	<b>483,758</b>	472,271
Non-current portion of amounts due to subsidiaries	<b>22,032</b>	3,622

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Except for the balance with a subsidiary of HK\$15,372,000 (2003: HK\$14,490,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2003: LIBOR plus 3%) per annum, the remaining balances are interest free. In the opinion of the directors, except for the amount due from a subsidiary of HK\$31,000,000 (2003: HK\$23,000,000), the amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 38.

## Notes to Financial Statements

For the year ended 31 December 2004

**16. INTERESTS IN JOINTLY CONTROLLED ENTITIES**

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	–	–	–	56,550
Share of net assets	<b>44,883</b>	48,911	–	–
	<b>44,883</b>	48,911	–	56,550
Less: Impairment losses	–	–	–	(56,550)
	<b>44,883</b>	48,911	–	–

Particulars of the Group's jointly controlled entity are set out in note 39.

**17. INTERESTS IN ASSOCIATES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<b>45,620</b>	44,813

Particulars of the Group's associate are set out in note 40.



## 18. GOODWILL

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
COST	
At 1 January 2004 and at 31 December 2004	44,450
ACCUMULATED AMORTISATION	
At 1 January 2004	556
Charge for the year	2,222
	<hr/>
At 31 December 2004	2,778
NET BOOK VALUE	
At 31 December 2004	41,672
	<hr/> <hr/>
At 31 December 2003	43,894
	<hr/> <hr/>

The amortisation period adopted for goodwill is 20 years.

## 19. CLUB MEMBERSHIPS

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<hr/>				
Club memberships, at cost	<b>2,010</b>	2,010	<b>820</b>	820
Less: Impairment losses	<b>(1,335)</b>	(1,335)	<b>(505)</b>	(505)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>675</b>	675	<b>315</b>	315
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



## Notes to Financial Statements

For the year ended 31 December 2004

**20. INVESTMENT SECURITIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment, at cost	1,123	1,123
Less: Impairment losses	(1,123)	(1,123)
	<u>—</u>	<u>—</u>

**21. INVENTORIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	40,765	21,523
Work in progress	9,784	3,056
Finished goods	32,658	19,319
	<u>83,207</u>	<u>43,898</u>

The inventories were stated at cost.

**22. TRADE RECEIVABLES**

The Group normally allows credit periods of 30 – 120 days to its trade customers.

The following is an aged analysis of trade receivables as at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 90 days	91,147	51,378
91 – 180 days	1,885	701
Over 180 days	4,691	57
	<u>97,723</u>	<u>52,136</u>



## 23. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure certain bank borrowings as set out in note 25:

- (i) the Group's investment properties amounting to HK\$5,416,000 (2003: HK\$8,386,000) and certain of the leasehold land and buildings with an aggregate net book value of HK\$36,580,000 (2003: HK\$8,415,000);
- (ii) the Group's certain plant and machinery with an aggregate net book value of HK\$146,404,000 (2003: Nil);
- (iii) the Group's land use rights with net book value of HK\$16,981,000 (2003: Nil);
- (iv) the Group's bank deposits amounting to HK\$4,000,000 (2003: HK\$4,000,000); and
- (v) the Group's shares in certain subsidiaries.

## 24. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 90 days	8,805	6,937
91 – 180 days	–	37
Over 180 days	23	975
	<b>8,828</b>	<b>7,949</b>

## Notes to Financial Statements

For the year ended 31 December 2004

## 25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trust receipt loans	79,148	37,359	–	8,177
Bank loans	200,299	72,171	80,000	60,000
	<b>279,447</b>	<b>109,530</b>	<b>80,000</b>	<b>68,177</b>
Secured	194,512	109,086	80,000	68,177
Unsecured	84,935	444	–	–
	<b>279,447</b>	<b>109,530</b>	<b>80,000</b>	<b>68,177</b>

The above amounts bear interest at floating interest rates and are repayable as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	176,384	61,530	40,000	20,177
In the second year	94,321	24,000	40,000	24,000
In the third to fifth years inclusive	8,742	24,000	–	24,000
	<b>279,447</b>	<b>109,530</b>	<b>80,000</b>	<b>68,177</b>
Less: Amount due for settlement within one year (shown under current liabilities)	(176,384)	(61,530)	(40,000)	(20,177)
Amount due for settlement after one year	<b>103,063</b>	<b>48,000</b>	<b>40,000</b>	<b>48,000</b>



## 26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	211	956	206	922
In the second to fifth years inclusive	—	211	—	206
	211	1,167	206	1,128
Less: Future finance charges	(5)	(39)	—	—
Present value of lease obligations	206	1,128	206	1,128
Less: Amount due for settlement within one year (shown under current liabilities)			(206)	(922)
Amount due for settlement after one year			—	206

The Group leased certain of its plant and machinery under finance leases. The average lease term is two years. For the year ended 31 December 2004, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2003: Hong Kong Dollar prime rate plus 0.25%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## Notes to Financial Statements

For the year ended 31 December 2004

**27. DEFERRED TAX LIABILITIES**

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

THE GROUP	Accelerated	Allowance	Allowance	Revaluation	Revaluation	Tax loss	Others	Total
	tax depreciation	for bad and doubtful debts	for inventories	of properties	of land use rights			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	115	(357)	(43)	690	890	-	-	1,295
Effect of change in tax rate								
Charge to income statement	23	49	6	-	-	-	-	78
Credit to equity	-	-	-	(76)	(123)	-	-	(199)
Charge (credit) to income statement for the year	174	159	(7)	-	-	(255)	-	71
(Credit) charge to equity for the year	-	-	-	(478)	556	-	-	78
At 31 December 2003 and 1 January 2004	312	(149)	(44)	136	1,323	(255)	-	1,323
Charge (credit) to income statement for the year	216	(579)	-	261	-	131	(109)	(80)
Charge to equity for the year	-	-	-	64	119	-	-	183
At 31 December 2004	<u>528</u>	<u>(728)</u>	<u>(44)</u>	<u>461</u>	<u>1,442</u>	<u>(124)</u>	<u>(109)</u>	<u>1,426</u>

As at the balance sheet date, the Group has unprovided deferred tax assets in respect of unrecognised tax losses amounting to HK\$56,716,000 (2003: HK\$49,542,000) which may be carried forward indefinitely.

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

The Company had no significant deferred taxation for the year or at the balance sheet date.





## 28. SHARE CAPITAL

	2004		2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January	2,000,000	200,000	1,000,000	100,000
Increased on 25 June 2003	–	–	1,000,000	100,000
At 31 December	<b>2,000,000</b>	<b>200,000</b>	<b>2,000,000</b>	<b>200,000</b>
Issued and fully paid:				
At 1 January	1,019,580	101,958	765,372	76,537
Issued on share placing (Note i)	–	–	123,492	12,349
Issued on subscription of new shares (Note ii)	–	–	126,984	12,699
Issued on declaration of interim scrip dividend (Note iii)	7,063	706	–	–
Exercise of share options	4,924	493	3,732	373
Repurchase of shares (Note iv)	(5,500)	(550)	–	–
At 31 December	<b>1,026,067</b>	<b>102,607</b>	<b>1,019,580</b>	<b>101,958</b>

## Notes to Financial Statements

For the year ended 31 December 2004

**28. SHARE CAPITAL** (continued)

Notes:

- (i) In order to finance the expansion of its subsidiary, Jiaxing Eastern Steel Cord Co., Ltd. and to generate working capital of the Group, the Company entered into a subscription agreement and placing agreement on 6 May 2003 pursuant to which the Company issued and allotted 126,984,000 and 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to a nominee of Shougang Holding (Hong Kong) Limited ("Shougang HK") and to independent places respectively.
- (ii) In order to finance the acquisition of remaining equity interest of Online Investments Limited, an intermediate holding company of Jiaxing Eastern, and to generate working capital for the Group, the Company entered into placing agreement on 21 August 2003 with placing agents pursuant to which the Company issued and allotted 60,000,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.68 per share to independent places.
- (iii) On 6 December 2004, the Company issued and allotted a total of approximately 7,063,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.816 per share to the shareholders who elected to receive shares in the Company in lieu of cash for the 2004 interim dividend pursuant to the scrip dividend scheme announced by the Company on 15 October 2004.
- (iv) During the year, the Company repurchased a total of 5,500,000 ordinary shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month /Year	Number of ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid (before expenses) HK\$'000
		Lowest	Highest	
		HK\$	HK\$	
05/2004	5,500,000	0.73	0.80	4,231

The new shares rank pari passu with the existing shares in all respects.



## 29. RESERVES

THE COMPANY	Share premium	Capital reserve	Capital redemption reserve	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	357,181	23,990	463	(151,690)	229,944
Reduction of share premium	(149,099)	-	-	149,099	-
Share issue expenses	(4,262)	-	-	-	(4,262)
Issue of shares	75,752	-	-	-	75,752
Exercise of share options	1,232	-	-	-	1,232
Net profit for the year	-	-	-	23,971	23,971
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2003 and 1 January 2004	280,804	23,990	463	21,380	326,637
Issue of shares	5,057	-	-	-	5,057
Exercise of share options	1,163	-	-	-	1,163
Repurchase of shares	-	-	550	(4,257)	(3,707)
Net profit for the year	-	-	-	40,416	40,416
Dividend paid	-	-	-	(40,702)	(40,702)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2004	<u>287,024</u>	<u>23,990</u>	<u>1,013</u>	<u>16,837</u>	<u>328,864</u>

The capital reserve of the Company represented the benefit of acquiring a shareholder's loan at a nominal consideration of HK\$1 upon the acquisition of a subsidiary in previous years.

Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region of the PRC, the share premium account of the Company has been reduced by the amount of approximately HK\$149,099,000 and the same amount of credit arising from such reduction has been applied towards the elimination of the accumulated losses.

The Company's reserve available for distribution to shareholders as at 31 December 2004 comprised the retained profits of HK\$16,837,000 (2003: HK\$21,380,000).

## Notes to Financial Statements

For the year ended 31 December 2004

**30. DISPOSAL OF SUBSIDIARIES****Disposal of subsidiaries:**

	HK\$'000
<hr/>	
NET ASSETS DISPOSED OF:	
Property, plant and equipment	4,236
Interest in a jointly controlled entity	4,538
	<hr/>
	8,774
Attributable goodwill	(82,041)
Exchange losses realised	1,196
	<hr/>
	(72,071)
Gain on disposal	76,651
	<hr/>
Total consideration	<u>4,580</u>
Satisfied by:	
Cash	500
Other receivable	4,080
	<hr/>
	<u>4,580</u>

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK\$'000
<hr/>	
Cash consideration	500
Bank balances and cash disposed of	–
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>500</u>

The subsidiaries disposed of during the year ended 31 December 2004 did not have any significant contribution to turnover and contributed HK\$835,000 (2003: HK\$1,743,000) to the Group's profit from operations.



## 31. MAJOR NON-CASH TRANSACTION

During the year, HK\$5,763,000 of the interim dividend for the year ending 31 December 2004 was satisfied by scrip shares of ordinary share of HK\$0.10 each, issued and allotted at HK\$0.816 per share.

## 32. OPERATING LEASES

### The Group as lessee

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	<u>1,340</u>	<u>1,372</u>

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for an average term of three years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	214	525
In the second to fifth years inclusive	<u>–</u>	<u>181</u>
	<u>214</u>	<u>706</u>

### The Group as lessor

Property rental income earned during the year was HK\$417,000 (2003: HK\$302,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

## Notes to Financial Statements

For the year ended 31 December 2004

### 32. OPERATING LEASES (continued)

#### The Group as lessor (continued)

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	402	346
In the second to fifth years inclusive	44	391
	<u>446</u>	<u>737</u>

The Company had no commitment under operating leases in both years.

### 33. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	690	126,210
– authorised but not contracted for	8,560	54,250
	<u>9,250</u>	<u>180,460</u>

The Company did not have any significant commitments in both years.



### 34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	<b>180,000</b>	120,000
Guarantee for bank loans granted to a jointly controlled entity	<b>10,721</b>	10,721	–	–
	<b>10,721</b>	10,721	<b>180,000</b>	120,000

### 35. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the local municipal government. These PRC subsidiaries are required to contribute 20% to 23% of its payroll costs to the scheme/fund. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme/fund.

### 36. SHARE OPTION SCHEME

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entities and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group. The 2002 Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue under the 2002 Scheme is 102,222,600 shares which represented 9.94% of the issued share capital of the company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-months period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. An option may be exercised under the 2002 Scheme at any time within 10 years from the date of grant of the options or may be determined by the Board at its absolute discretion. The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion.





### 36. SHARE OPTION SCHEME (continued)

The exercise price per share in relation to an option shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the option is offered to an eligible participant, which must be a business day; or (b) the official average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant; or (c) the nominal value of shares of the Company on the date of offer of option to an eligible participant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

## Notes to Financial Statements

For the year ended 31 December 2004

## 36. SHARE OPTION SCHEME (continued)

Apart from the details set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" in the Report of the Directors, the following table discloses details of the Company's share options held by eligible participants and movements in such holdings in relation to the 2002 Scheme during the years ended 31 December 2004 and 2003:

Grantees	Number of share options for 2004					At 31.12.2004	Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2004	Granted during the year (Note a)	Reclassification of categories of grantees	Exercised during the year	Date of exercise				
Directors of the Company	40,556,000	-	(10,330,000) (Notes c & d)	(1,296,000)	9.2.2004	27,930,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
				(500,000)	20.4.2004				
				(500,000)	31.5.2004				
	8,416,000	-	(5,356,000) (Note e)	-	-	3,060,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	68,882,000	-	-	-	-	68,882,000	25.6.2003	25.6.2003 - 24.6.2013	0.365
6,356,000	-	(382,000) (Note f)	-	-	5,974,000	25.8.2003	25.8.2003 - 24.8.2013	0.740	
57,350,000	-	-	-	-	57,350,000	2.10.2003	2.10.2003 - 1.10.2013	0.780	
	181,560,000	-	(16,068,000)	(2,296,000)		163,196,000			
Employees other than directors of the Company	766,000	-	-	(766,000)	5.2.2004	-	23.8.2002	23.8.2002 - 22.8.2012	0.295
	1,098,000	-	-	(84,000)	5.2.2004	-	12.3.2003	12.3.2003 - 11.3.2013	0.325
				(332,000)	31.5.2004				
				(682,000)	4.11.2004				
27,500,000	-	-	-	-	27,500,000	25.8.2003	25.8.2003 - 24.8.2013	0.740	
	29,364,000	-	-	(1,864,000)		27,500,000			
All other eligible participants	-	-	7,652,000 (Note c)	-	-	7,652,000	23.8.2002	23.8.2002 - 12.4.2006	0.295
	7,652,000	-	2,678,000 (Note d)	(382,000)	25.10.2004	9,948,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
	15,304,000	-	5,356,000 (Note e)	-	-	20,660,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	-	-	382,000 (Note f)	(382,000)	25.10.2004	-	25.8.2003	25.8.2003 - 24.8.2013	0.740
		22,956,000	-	16,068,000	(764,000)		38,260,000		
	233,880,000	-	-	(4,924,000)		228,956,000			



## 36. SHARE OPTION SCHEME (continued)

Grantees	Number of share options for 2003				At 31.12.2003	Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year (Note a)	Exercised during the year	Date of exercise				
Directors of the Company	40,556,000	-	-	-	40,556,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	8,416,000	-	-	8,416,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	-	68,882,000	-	-	68,882,000	25.6.2003	25.6.2003 – 24.6.2013	0.365
	-	6,356,000	-	-	6,356,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
	-	57,350,000	-	-	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	0.780
	<u>40,556,000</u>	<u>141,004,000</u>	<u>-</u>		<u>181,560,000</u>			
Employees other than directors of the Company	1,532,000	-	(766,000)	9.12.2003	766,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	3,064,000	(1,532,000)	24.11.2003	1,098,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	-	28,500,000	(434,000) (300,000)	9.12.2003 24.11.2003	27,500,000	25.8.2003	25.8.2003 – 24.8.2013	0.740
			(700,000)	19.12.2003				
	<u>1,532,000</u>	<u>31,564,000</u>	<u>(3,732,000)</u>		<u>29,364,000</u>			
All other eligible participants	7,652,000	-	-		7,652,000	23.8.2002	23.8.2002 – 22.8.2012	0.295
	-	15,304,000	-		15,304,000	12.3.2003	12.3.2003 – 11.3.2013	0.325
	<u>7,652,000</u>	<u>15,304,000</u>	<u>-</u>		<u>22,956,000</u>			
	<u>49,740,000</u>	<u>187,872,000</u>	<u>(3,732,000)</u>		<u>233,880,000</u>			

## Notes to Financial Statements

For the year ended 31 December 2004

**36. SHARE OPTION SCHEME (continued)**

Notes:

- a. The closing prices of the shares immediately before the dates on which the share options were granted in 2003 were as follows:

<b>Date of grant</b>	<b>Closing price immediately before the date of grant</b>
	HK\$
12.3.2003	0.315
25.6.2003	0.410
25.8.2003	0.730
2.10.2003	0.750

- b. The vesting period of the share option is from the date of grant to the end of the exercise period.
- c. The 7,652,000 outstanding options were held by Ms. Xu Xianghua who resigned as director of the Company on 13 April 2004 and the exercise period was changed from 23/8/2002 – 22/8/2012 to 23/8/2002 – 12/4/2006 by the approval of the board of directors on 8 April 2004. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- d. In which the 2,296,000 outstanding options were held by Ms. Cheng Xiaoyu (“Ms. Cheng”) who resigned as director of the Company on 6 January 2004 and the 382,000 options (the exercise period remained unchanged in accordance to the approval of the board of directors on 28 September 2004) were exercised by Mr. Lai Kam Man (“Mr. Lai”) who resigned as director on 30 September 2004. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- e. In which the 5,356,000 outstanding options were held by Ms. Cheng. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- f. The 382,000 options were exercised by Mr. Lai. Those options were re-classified from the category of “Directors of the Company” to the category of “All other eligible participants”.
- g. The weighted average closing price of the shares immediately before the dates on which the options were exercised by Mr. Tang Cornor Kwok Kau, Mr. Lai and the employees was HK\$0.9715.
- h. No share option was lapsed or cancelled during the year.



### 36. SHARE OPTION SCHEME (continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such item as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

The directors do not consider that it is appropriate to disclose a theoretical value of the options granted, because a number of factors crucial for the valuation are subjective and uncertain. In addition, the market value of the share options on the shares of the Company is not readily available. Accordingly, any valuation of the share options based on various speculative assumptions may not be meaningful and could be misleading.

## Notes to Financial Statements

For the year ended 31 December 2004

**37. RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following material transactions with Shougang Concord International Enterprises Company Limited ("Shougang International") and its subsidiaries (collectively the "Shougang International Group"), Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), Shougang Concord Technology Holdings Limited ("Shougang TECH") and its subsidiaries (collectively the "Shougang TECH Group") and jointly controlled entity of the Group. Shougang International is the substantial shareholder of the Company and Shougang HK is the substantial shareholder of Shougang International and Shougang TECH.

	Notes	2004 HK\$'000	2003 HK\$'000
Consultancy fees paid to the Shougang HK Group	(i)	960	480
Management fees paid to the Shougang International Group	(i)	–	240
Rental expenses paid to the Shougang HK Group	(ii)	936	968
Sales to the Shougang TECH Group	(iii)	4,576	3,153
Repayment from the Shougang HK Group	(iv)	–	(471)
Corporate guarantees given to a jointly controlled entity	(v)	10,721	10,721

*Notes:*

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) Sales to the Shougang TECH Group were made according to the published prices and conditions offered to the major customers of the Group.
- (iv) The loan advanced to the Shougang HK Group is unsecured, interest-free and was fully repaid in 2003.
- (v) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group's equity interest in the jointly controlled entity and are normally renewable on an annual basis.



### 38. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2004	2003	
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	<b>100%*</b>	100%*	Processing and trading of copper and brass products
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	<b>100%*</b>	100%	Processing and trading of copper and brass products
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK\$1 each	<b>100%</b>	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	<b>100%</b>	100%	Property investment
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	<b>100%</b>	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	<b>100%</b>	100%	Trading of metals and investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	<b>100%</b>	100%	Investment holding

## Notes to Financial Statements

For the year ended 31 December 2004

**38. PRINCIPAL SUBSIDIARIES** (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2004	2003	
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.#	PRC	US\$44,000,000	100%	100%	Manufacturing of steel cord

# A wholly foreign owned enterprise

\* Directly held by the Company

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at anytime during the year.





### 39. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity as at 31 December 2004 are as follows:

Name	Business structure	Place of registration and operation	Registered capital	Percentage of equity attributable to the Group	Percentage of voting power attributable to the Group	Percentage of profit and loss attributable to the Group	Principal activities
Shanghai Shenjia Metal Products Co., Ltd.	Incorporated	PRC	US\$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires

### 40. PARTICULARS OF THE ASSOCIATE

Particulars of the associate at 31 December 2004 are as follows:

Name	Business structure	Place of registration and operation	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2004	2003	
Xinhua Metal Products Co., Ltd. (Note)	Incorporated	PRC	193,220,374 shares of RMB1 each	16.75%	16.75%	Manufacturing of pre-stressed concrete strands and wires

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. In the opinion of the directors, the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.