Notes to the Financial Statements

For the Year Ended 31 December 2005

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"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

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

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

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

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the transitional provisions in HKFRS 3. On 1 January 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$2,778,000 with a corresponding decrease in the cost of goodwill (see Note 20). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

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

Share-based Payments

In the current year, the Group and the Company have applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group and the Company buy goods or obtain services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group and the Company are in relation to the expensing of the fair value of share options granted to eligible participants, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group and the Company did not recognise the financial effect of these share options until they were exercised. The Group and the Company have applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group and the Company choose not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. Hence, there is no financial impact on the current and prior accounting periods.

Financial Instruments

In the current year, the Group and the Company have applied HKAS 32 *Financial Instruments: Disclosure* and *Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group and the Company are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities

The Group and the Company have applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group and the Company classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group and the Company have classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group and the Company classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. The Group's investment in certain unlisted equity securities were fully impaired in previous years. These securities are now classified as "available-for-sale financial assets" and are carried at cost less impairment losses as their value cannot be reliably measured. This change has had no effect on the retained profits of the Group and the Company at 1 January 2005.

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group and the Company have classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group and the Company have applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting year are prepared and presented.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

As at 1 January 2005, the Group and the Company did not have any derivatives outstanding. Accordingly, the adoption of HKAS 39 has had no effect on the financial statements of the Group and the Company as at 1 January 2005.

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

Financial Instruments (continued)

Interest-free non-current loans

Prior to the application of HKAS 39, advances to subsidiaries were stated at the nominal amounts. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free advances are measured at amortised costs determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the advances as at 1 January 2005 has been decreased by approximately HK$169,564,000 in order to state the loans at amortised costs in accordance with HKAS 39. The Company's cost of investment as at 1 January 2005 has been increased by approximately HK$169,564,000. Profit for the year has been increased by approximately HK$18,840,000 due to the recognition of imputed interest income.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

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

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no material effect on the Group's retained profits at 1 January 2005.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change has had no material effect on the Group's retained profits at 1 January 2005.

Notes to the Financial Statements

For the Year Ended 31 December 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

	2005 HK$'000	2004 HK$'000
Decrease in amortisation of goodwill (included in "Other operating expenses")	**2,222**	–
Decrease in amortisation of prepaid lease payments (included in "Cost of sales")	**472**	410
Increase in profit for the year	**2,694**	410

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

	As at 31 December 2004 (Originally stated) HK$'000	Adjustment HK$'000	As at 31 December 2004 (Restated) HK$'000	Adjustment HK$'000	As at 1 January 2005 (Restated) HK$'000
THE GROUP					
Balance sheet items					
Land use rights	16,981	(16,981)	–	–	–
Prepaid lease payments	–	7,624	7,624	–	7,624
Deferred tax assets	–	16	16	–	16
Deferred tax liabilities	(1,426)	1,426	–	–	–
Retained profits	212,690	(245)	212,445	(33,112)	179,333
Goodwill reserve	(33,112)	–	(33,112)	33,112	–
Land use rights revaluation reserve	7,663	(7,663)	–	–	–
Translation reserve	5,135	(7)	5,128	–	5,128

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

	As at 31 December 2004 (Originally stated)	Adjustment HKAS 39	As at 1 January 2005 (Restated)
	HK$'000	HK$'000	HK$'000
THE COMPANY			
Balance sheet items			
Investments in subsidiaries	6,778	169,564	176,342
Advances to subsidiaries	476,980	(169,564)	307,416

The financial effects of the application of the new HKFRSs to the Group's equity at 1 January 2004 are summarised below:

	As originally stated	Adjustment	As restated
	HK$'000	HK$'000	HK$'000
Retained profits	107,219	(655)	106,564
Land use rights revaluation reserve	6,991	(6,991)	–
Translation reserve	(13,643)	(7)	(13,650)

Notes to the Financial Statements

For the Year Ended 31 December 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

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

HKAS 1 (Amendment)	Capital Disclosure [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK (IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease [2]
HK (IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK (IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [3]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Goodwill

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of a jointly controlled entity and an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant jointly controlled entity and associate.

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

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

Investments in subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

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 results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 *Financial Instruments: Recognition and Measurement*). Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in jointly controlled entities (continued)

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Investment properties

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

Property, plant and equipment

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

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. 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 losses, 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	6% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

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

Club memberships

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method for steel cord and first-in, first-out 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.

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 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.

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

Dividend income is recognized 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.

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of these assets' previous carrying amount and fair value less costs to sell.

Leasing

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

Land use rights is classified as prepaid lease payments under operating leases, and are carried at cost and amortised over the lease term on a straight-line basis.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Financial instruments

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

Financial assets

Financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The Group's financial assets are classified into available-for-sale, fair value through profit or loss and loans and receivables and the accounting policies adopted in respect of each category of financial assets are set out below. The Company's financial assets are mainly loans and receivables.

Financial assets at fair value through profit or loss

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and bills receivables, prepayments, deposits and other receivables, amount due from a related company, pledged bank deposits and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derivative financial instruments

The Group uses derivative financial instruments (primarily interest rate swaps) to hedge its exposure against interest rate risk. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Equity settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

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 standard in which case the impairment loss is treated as a revaluation decrease under that standard.

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 standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGU") 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. As at 31 December 2005, the carrying amount of goodwill is approximately HK$41,672,000. Details of the recoverable amount calculation are disclosed in note 21.

Depreciation

The Group's net book value of property, plant and equipment as at 31 December 2005 was approximately HK$458,085,000. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life of three to twenty-five years, and after taking into account of their estimated residual value, using the straight-line method, at the rate 6% to 30% per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and bills receivables, other receivables, trade and bills payables and other payables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group is exposed to foreign currency risk as several subsidiaries of the Company have foreign currency sales and purchases, while the Group has certain trade receivables, trade payables and bank borrowings that are denominated in currencies other than the functional currency of respective group entities. The currencies involved are primarily Renminbi ("RMB") and United States dollars ("USD"). As the rate of exchange between Hong Kong dollar and these two currencies are moving within a close range, the Group currently does not have a foreign currency hedging policy against these two currencies. However, the management is regularly reviewing and monitoring the foreign currency exposure of the Group and will consider hedging significant foreign currency exposure should the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate borrowings (see note 32 for details of these borrowings).

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases. The interest rate and terms of repayment of bank borrowings and obligations under finance leases of the Group are disclosed in notes 32 and 34 respectively.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans. In relation to those medium term borrowings at variable rate, the Group aims at minimizing its interest rate risks at times of rising interest rate cycle when further rate increase is anticipated. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to potential changes in variability of cash flows for some of these borrowings (see note 33 for details).

Credit risk

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

The credit risk of liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

6. 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:

	2005	2004
	HK$'000	HK$'000
Sales of goods		
Manufacturing of steel cord	**411,865**	266,262
Processing and trading of copper and brass products	**164,620**	159,674
Others (trading of metal ore)	**15,849**	1,511
	592,334	427,447
Rental income	**555**	417
	592,889	427,864

7. 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.

(a) Business segments

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;

(iii) the corporate segment comprises the Group's management services business, which provides corporate management service, together with corporate income and expense items. The segment of others mainly comprises property investment and the manufacturing of pre-stressed concrete strands and wires and trading of metal ore.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2005

	Steel cord HK$'000	Copper and brass products HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue				
External sales	411,865	164,620	16,404	592,889
Other operating income	6,707	502	3,058	10,267
Total	418,572	165,122	19,462	603,156
Result				
Segment result	77,095	6,044	(14,343)	68,796
Unallocated corporate income				275
Unallocated corporate expenses				(299)
Finance costs				(14,468)
Share of result of a jointly controlled entity	–	–	9,133	9,133
Share of result of an associate	–	–	4,781	4,781
Profit before taxation				68,218
Income tax expenses				(5,990)
Profit for the year				62,228

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (continued)

	Steel cord HK$'000	Copper and brass products HK$'000	Corporate and others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	7,138	66	1,251	8,455
Depreciation	36,948	1,153	693	38,794
(Recovery of) allowances for bad and doubtful debts, net	(2,042)	103	–	(1,939)
Loss on disposal of property, plant and equipment	297	1	1	299
BALANCE SHEET				
Assets				
Segment assets	688,292	80,174	59,143	827,609
Interests in a jointly controlled entity	–	–	49,025	49,025
Interests in an associate	–	–	48,234	48,234
Goodwill	41,672	–	–	41,672
Club memberships	–	–	675	675
Consolidated total assets				967,215
Liabilities				
Segment liabilities	10,945	7,949	9,950	28,844
Unallocated corporate liabilities				244,618
Consolidated total liabilities				273,462

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004 (Restated)

	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	267,013	160,831	5,778	433,622
Result				
Segment result	83,060	10,196	(10,079)	83,177
Unallocated corporate income				158
Unallocated corporate expenses				(2,222)
Finance costs				(4,463)
Gain on disposal of subsidiaries	–	–	76,651	76,651
Loss on disposal of interests in a jointly controlled entity	–	–	(9,410)	(9,410)
Share of results of jointly controlled entities	–	–	6,765	6,765
Share of result of an associate	–	–	3,854	3,854
Profit before taxation				154,510
Income tax expenses				(5,986)
Profit for the year				148,524

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004 (Restated) (continued)

	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	23,905	1,107	422	25,434
Allowances for (recovery of) bad and doubtful debts, net	3,159	373	(288)	3,244
BALANCE SHEET				
Assets				
Segment assets	694,778	72,986	39,150	806,914
Interests in a jointly controlled entity	–	–	44,883	44,883
Interests in an associate	–	–	45,620	45,620
Goodwill	41,672	–	–	41,672
Club memberships	–	–	675	675
Unallocated corporate assets				16
Consolidated total assets				939,780
Liabilities				
Segment liabilities	14,400	6,819	3,801	25,020
Unallocated corporate liabilities				280,518
Consolidated total liabilities				305,538

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

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.

	Hong Kong		Other regions in the PRC		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment turnover:								
Sales to external customers	**67,203**	60,370	**521,178**	365,633	**3,953**	1,444	**592,334**	427,447
Gross rental income	**450**	417	**105**	–	**–**	–	**555**	417
	67,653	60,787	**521,283**	365,633	**3,953**	1,444	**592,889**	427,864
Other segment information:								
Segment assets	**149,593**	127,538	**817,622**	812,242	**–**	–	**967,215**	939,780
Interests in a jointly controlled entity	**–**	–	**49,025**	44,883	**–**	–	**49,025**	44,883
Interests in an associate	**–**	–	**48,234**	45,620	**–**	–	**48,234**	45,620
Capital expenditure	**1,189**	764	**7,266**	184,702	**–**	–	**8,455**	185,466

8. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Interest on bank and other borrowings wholly repayable within five years	**13,682**	6,509
Interest on finance leases	**6**	34
Other finance costs	**780**	–
Total borrowing costs	**14,468**	6,543
Less: Amounts capitalised in construction in progress	**–**	(2,080)
	14,468	4,463

Notes to the Financial Statements

For the Year Ended 31 December 2005

9. PROFIT BEFORE TAXATION

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories sold	**489,570**	307,858
Staff costs, including directors' remuneration *(note 11)*:		
– Salaries, wages and other benefits	**34,075**	30,305
– Retirement benefit scheme contributions	**1,652**	1,133
Total staff costs	**35,727**	31,438
Depreciation		
– Owned assets	**38,794**	25,332
– Leased assets	**–**	102
Auditors' remuneration	**530**	440
Amortisation of prepaid lease payments (included in "Cost of sales")	**421**	381
Amortisation of goodwill (included in "Other operating expenses")	**–**	2,222
Foreign exchange (gains) losses, net	**(4,575)**	158
Loss on disposal of property, plant and equipment	**299**	–
Change in fair value of derivatives (included in "Other operating expenses")	**46**	–
Increase in fair value of investment properties	**(2,695)**	(580)
Surplus on revaluation of leasehold land and buildings, net	**(337)**	(1,995)
Gross rental income	**(555)**	(417)
Less: Direct operating expenses for investment property that generates rental income	**72**	13
Net rental income	**(483)**	(404)
Interest income	**(275)**	(159)
Share of tax of a jointly controlled entity (included in "Share of results of jointly controlled entities")	**1,700**	1,068
Share of tax of an associate (included in "Share of result of an associate")	**1,563**	708

10. INCOME TAX EXPENSES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Current tax:		
Hong Kong	**–**	–
Other regions in the PRC	**5,114**	6,361
	5,114	6,361
Under(over)provision in prior years:		
Hong Kong	**–**	16
Other regions in the PRC	**–**	(311)
	–	6,066
Deferred taxation *(note 23)*:		
Current year	**876**	(80)
Taxation attributable to the Company and its subsidiaries	**5,990**	5,986

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

10. INCOME TAX EXPENSES (continued)

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

	2005		2004	
	HK$'000	**%**	HK$'000 (Restated)	%
Profit before taxation	**68,218**		154,510	
Tax at domestic income tax rate of 15% (2004: 15%)	**10,233**	**15.00**	23,177	15.00
Tax effect of expenses not deductible in determining taxable profit	**1,665**	**2.44**	2,184	1.41
Tax effect of income not taxable in determining taxable profit	**(159)**	**(0.23)**	(11,913)	(7.71)
Tax effect of tax losses not recognised	**2,145**	**3.14**	2,231	1.44
Tax effect of recognition of deferred tax assets previously not recognised	**(33)**	**(0.05)**	(405)	(0.26)
Tax effect on utilisation of tax losses previously not recognised	**(977)**	**(1.43)**	(1,112)	(0.72)
Tax effect on share of result of a jointly controlled entity	**(1,370)**	**(2.01)**	(1,015)	(0.66)
Tax effect on share of result of an associate	**(717)**	**(1.05)**	(578)	(0.37)
Effect of tax concessions granted to subsidiaries	**(4,915)**	**(7.20)**	(6,348)	(4.11)
Effect of different tax rates in other jurisdictions	**44**	**0.06**	(49)	(0.03)
Others	**74**	**0.11**	(186)	(0.12)
Tax expense for the year	**5,990**	**8.78**	5,986	3.87

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 23).

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 December 2005

	Cao Zhong HK$'000	Li Shaofeng HK$'000	Tong Yihui HK$'000	Leung Shun Sang, Tony HK$'000	Tang Cornor Kwok Kau HK$'000	Yip Kin Man, Raymond HK$'000	Law, Yui Lun HK$'000	Chu, Kwok Tsu Gilbert HK$'000	Chen Siu Min, Kelvin HK$'000	Hui, Hung Stephen HK$'000	Total 2005 HK$'000
Fees	-	-	-	-	-	125	75	25	63	100	388
Other emoluments											
Salaries and other benefits	-	1,950	1,560	-	1,690	-	-	-	-	-	5,200
Retirement benefit scheme contributions	-	120	88	-	98	-	-	-	-	-	306
Discretionary bonus	500	450	195	-	275	-	-	-	-	-	1,420
Total emoluments	500	2,520	1,843	-	2,063	125	75	25	63	100	7,314

For the year ended 31 December 2004

	Cao Zhong HK$'000	Li Shaofeng HK$'000	Tong Yihui HK$'000	Leung Shun Sang, Tony HK$'000	Tang Cornor Kwok Kau HK$'000	Yip Kin Man, Raymond HK$'000	Hui, Hung Stephen HK$'000	Lai Kam Man HK$'000	Xu Xianghua HK$'000	Cheng Xiaoyu HK$'000	Chen Siu Min, Kelvin HK$'000	Total 2004 HK$'000
Fees	–	–	–	–	–	20	–	20	–	–	20	60
Other emoluments												
Salaries and other benefits	–	1,332	1,107	–	1,690	–	–	–	480	–	–	4,609
Retirement benefit scheme contributions	–	12	8	–	12	–	–	–	–	–	–	32
Discretionary bonus	–	300	450	–	–	–	–	–	–	–	–	750
Total emoluments	–	1,644	1,565	–	1,702	20	–	20	480	–	20	5,451

No director waived any emoluments in the years ended 31 December 2005 and 2004.

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For the Year Ended 31 December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

During the year, the emoluments of the five highest paid individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**2,921**	2,803
Retirement benefits schemes contributions	**60**	60
Discretionary bonus	**304**	310
	3,285	3,173

Their emoluments were within the following bands:

	Number of employees 2005	 2004
HK$nil to HK$1,000,000	**5**	5

12. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim dividend paid – HK2.0 cents per share with scrip option	**–**	20,351
Final dividend paid – HK1.5 cents per share in respect of previous financial year (2004: HK2.0 cents per share)	**15,391**	20,351
	15,391	40,702

No final dividend was paid or proposed for the year ended 31 December 2005, nor has any dividend been proposed since the balance sheet date (2004: HK1.5 cents per share).

13. EARNINGS PER SHARE

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Earnings		
Profit for the year for the purpose of calculation of basic and diluted earnings per share	**62,228**	148,524

	THE GROUP	
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,026,066,556**	1,019,614,692
Effect of dilutive potential ordinary shares:		
Share options	**38,706,181**	103,108,012
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,064,772,737**	1,122,722,704

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

	Impact on basic earnings per share		**Impact on diluted earnings per share**	
	2005	2004	**2005**	2004
	HK cents	HK cents	**HK cents**	HK cents
Reported figures before adjustments	**5.80**	14.53	**5.59**	13.19
Adjustments arising from changes in accounting policies *(see note 2A)*	**0.26**	0.04	**0.25**	0.04
Restated	**6.06**	14.57	**5.84**	13.23

Notes to the Financial Statements

For the Year Ended 31 December 2005

14. INVESTMENT PROPERTIES

	THE GROUP HK$'000
At 1 January 2004	8,386
Surplus on revaluation	580
At 1 January 2005	8,966
Transfer to property, plant and equipment at fair value	(1,321)
Increase in fair value, net	2,695
At 31 December 2005	10,340

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of valuation carried out by Vigers International Property Consultant ("Vigers International"), an independent professional valuer. Vigers International are members of Institute of Valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Long-term lease in Hong Kong	**7,760**	4,720
Medium-term lease in other regions in the PRC	**2,580**	4,246
	10,340	8,966

All investment properties situated in other regions in the PRC and some investment properties situated in Hong Kong are rented out under operating leases, while one investment property situated in Hong Kong is vacant.

Notes to the Financial Statements

For the Year Ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
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 and 1 January 2005	61,871	2,140	560,355	4,593	6,940	435	636,334
Exchange realignment	1,036	6	11,158	53	72	8	12,333
Additions	3	9	2,226	795	1,612	3,810	8,455
Reclassification	1,854	–	1,008	–	–	(2,862)	–
Transfer from investment properties	1,321	–	–	–	–	–	1,321
Transfer to asset held for sale	(2,700)	–	–	–	–	–	(2,700)
Disposals	–	–	(710)	(19)	–	–	(729)
Surplus on revaluation, net	(2,206)	–	–	–	–	–	(2,206)
At 31 December 2005	61,179	2,155	574,037	5,422	8,624	1,391	652,808
Comprising:							
At cost	–	2,155	574,037	5,422	8,624	1,391	591,629
At valuation	61,179	–	–	–	–	–	61,179
	61,179	2,155	574,037	5,422	8,624	1,391	652,808

Notes to the Financial Statements

For the Year Ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
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)
Eliminated on revaluation	(2,223)	–	–	–	–	–	(2,223)
Eliminated on disposal of subsidiaries	(104)	–	–	–	–	–	(104)
At 31 December 2004 and 1 January 2005	–	1,083	147,384	2,690	4,964	–	156,121
Exchange realignment	34	1	3,276	34	46	–	3,391
Provided for the year	3,200	236	34,166	527	665	–	38,794
Eliminated on disposals	–	–	(333)	(16)	–	–	(349)
Eliminated on revaluation	(3,171)	–	–	–	–	–	(3,171)
Transfer to asset held for sale	(63)	–	–	–	–	–	(63)
At 31 December 2005	–	1,320	184,493	3,235	5,675	–	194,723
NET BOOK VALUE							
At 31 December 2005	61,179	835	389,544	2,187	2,949	1,391	458,085
At 31 December 2004	61,871	1,057	412,971	1,903	1,976	435	480,213

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The carrying amount of leasehold land and buildings comprises:		
Medium-term leases in Hong Kong	**5,699**	8,400
Long-term leases in other regions in the PRC	**1,960**	1,415
Medium-term leases in other regions in the PRC	**53,520**	52,056
	61,179	61,871

All leasehold land and buildings of the Group were valued at 31 December 2005 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

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 approximately HK$67,012,000 (2004: HK$65,071,000).

The net book value of property, plant and machinery includes plant and machinery of HK$nil (2004: HK$382,000) held under finance leases. As at 31 December 2004, motor vehicles of HK$303,000 was held under finance lease.

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For the Year Ended 31 December 2005

16. PREPAID LEASE PAYMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Medium-term prepaid lease payments located in the PRC	**8,084**	7,624
Analysed for reporting purposes as:		
Current asset	**426**	381
Non-current asset	**7,658**	7,243
	8,084	7,624

17. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**15,182**	6,778
Capital contribution	**176,085**	–
	191,267	6,778
Advances to subsidiaries	**330,918**	476,980

Capital contribution represent imputed interest on interest-free advances to subsidiaries.

Except for the balance with a subsidiary of HK$15,372,000 (2004: HK$15,372,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2004: LIBOR plus 3%) per annum, the remaining balances are interest free. In the opinion of the directors, the Company will not demand repayment within one year from the balance sheet date and are therefore considered as non-current. Such interest-free loans are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. As at 31 December 2005, the effective interest rate used was 7.75% per annum (2004: 5% per annum), being the prevailing market borrowing rate of interest for a similar instrument.

Details of the Company's principal subsidiaries at 31 December 2005 are set out in note 45.

18. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of investment in a jointly controlled entity	**19,500**	19,500
Share of post acquisition profits and reserves, net of dividend received	**29,525**	25,383
	49,025	44,883

The summarised financial information in respect of the Group's jointly controlled entity is set out below:

	2005	2004
	HK$'000	HK$'000
Total assets	**337,820**	324,761
Total liabilities	**(141,720)**	(145,229)
Net assets	**196,100**	179,532
Group's share of net assets of a jointly controlled entity	**49,025**	44,883
Turnover	**465,519**	465,648
Profit for the year	**36,532**	27,060
Group's share of results of jointly controlled entities for the year	**9,133**	6,765

Particulars of the Group's jointly controlled entity is set out in note 46.

Notes to the Financial Statements

For the Year Ended 31 December 2005

19. INTERESTS IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of investment in an associate	**5,282**	5,282
Share of post-acquisition profits and reserves, net of dividend received	**42,952**	40,338
	48,234	45,620

The summarised financial information in respect of the Group's associate is set out below:

	2005	2004
	HK$'000	HK$'000
Total assets	**606,307**	543,431
Total liabilities	**(318,343)**	(271,073)
Net assets	**287,964**	272,358
Group's share of net assets of an associate	**48,234**	45,620
Turnover	**785,576**	709,844
Profit for the year	**28,542**	23,010
Group's share of result of an associate for the year	**4,781**	3,854

Particulars of the Group's associate is set out in note 47.

20. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries and at 1 January 2005	44,450
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 2A)*	(2,778)
At 31 December 2005	41,672
AMORTISATION	
Charge for the year ended 31 December 2004 and at 1 January 2005	2,778
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see note 2A)*	(2,778)
At 31 December 2005	–
CARRYING VALUES	
At 31 December 2005	41,672
At 31 December 2004	41,672

Particulars regarding impairment testing on goodwill are disclosed in note 21.

Until 31 December 2004, goodwill had been amortised over its estimated useful life of 20 years.

Notes to the Financial Statements

For the Year Ended 31 December 2005

21. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 20 have been allocated to a subsidiary in steel cord segment, Online Investments Limited.

During the year ended 31 December 2005, management of the Group determines that there are no impairments of any of its CGU containing goodwill.

The recoverable amount of the above CGU have been determined on the basis of value in use calculations. The recoverable amounts are based on certain key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 7.6%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the above CGU.

22. CLUB MEMBERSHIPS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Club memberships, at cost	**2,010**	2,010	**820**	820
Less: Impairment losses	**(1,335)**	(1,335)	**(505)**	(505)
	675	675	**315**	315

23. DEFERRED TAX

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 tax depreciation	Allowance for bad and doubtful debts	Allowance for inventories	Revaluation of properties	Revaluation of land use rights	Tax loss	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004 as originally stated	312	(149)	(44)	136	1,323	(255)	–	1,323
Effects of changes in accounting policies *(note 2A)*	–	–	–	–	(1,323)	–	–	(1,323)
As restated	312	(149)	(44)	136	–	(255)	–	–
Charge (credit) to income statement for the year	216	(579)	–	261	–	131	(109)	(80)
Charge to equity for the year	–	–	–	64	–	–	–	64
At 31 December 2004 and 1 January 2005	528	(728)	(44)	461	–	(124)	(109)	(16)
Charge (credit) to income statement for the year	552	294	14	310	–	(334)	40	876
Charge to equity for the year	–	–	–	75	–	–	–	75
At 31 December 2005	1,080	(434)	(30)	846	–	(458)	(69)	935

Tax losses carried forward amount to approximately HK$60,682,000 (2004: HK$57,425,000).

As at the balance sheet date, the Group had unprovided deferred tax assets in respect of unrecognised tax losses amounting to HK$58,066,000 (2004: HK$50,825,000) 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.

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For the Year Ended 31 December 2005

24. AVAILABLE-FOR-SALE INVESTMENT/INVESTMENT SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Unlisted equity investment, at cost	**1,123**	1,123
Less: Impairment losses	**(1,123)**	(1,123)
	–	–

The above unlisted investment represent investment in unlisted equity securities issued by a private entity incorporated in the PRC. They are measured at cost less impairment losses at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

25. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Raw materials	**36,340**	40,765
Work in progress	**10,620**	9,784
Finished goods	**37,200**	32,658
	84,160	83,207

26. TRADE RECEIVABLES/BILLS RECEIVABLE

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

An aged analysis of trade and bills receivables as at the balance sheet date based on payment due date and after allowance, is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
		(Restated)
0 – 90 days	**181,710**	149,930
91 – 180 days	**29,910**	16,601
Over 180 days	**–**	4,691
	211,620	171,222

The fair value of the Group's trade and bills receivables at 31 December 2005 approximate to the corresponding carrying amount.

27. OTHER FINANCIAL ASSETS AND LIABILITIES

Other receivables

The fair values of the Group's other receivables at 31 December 2005 approximate to the corresponding carrying amounts.

Amount due from a related company

The amount is unsecured, non-interest bearing and repayable on demand.

The fair value of the Group's amount due from a related company at 31 December 2005 approximates to the corresponding carrying amount.

Bank balances and cash

The amount comprises cash and bank balances held by the Group. The fair values of these assets at 31 December 2005 approximate to the corresponding carrying amounts.

Other payables and accruals

The fair values of these liabilities at 31 December 2005 approximate to the corresponding carrying amounts.

28. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure certain bank borrowings as set out in note 32.

(i) the Group's investment properties amounting to HK$2,580,000 (2004: HK$5,416,000) and certain of the leasehold land and buildings with an aggregate net book value of HK$42,486,000 (2004: HK$36,580,000);

(ii) the Group's certain plant and machinery with an aggregate net book value of HK$136,956,000 (2004: HK$146,404,000);

(iii) the Group's prepaid lease payments with a net book value of HK$8,084,000 (2004: HK$7,624,000);

(iv) the Group's bank deposits amounting to HK$3,000,000 (2004: HK$4,000,000); and

(v) the Company's shares in certain subsidiaries.

29. ASSET CLASSIFIED AS HELD FOR SALE

On 17 November 2005, the directors resolved to dispose one of the Group's properties of the corporate and others segment. Agreement for sale and purchase has been signed before 31 December 2005 and the transaction was completed on 5 January 2006. The asset which is expected to be sold within twelve months, has been classified as a disposal asset held for sale and presented separately in the consolidated balance sheet.

30. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on payment due date, is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0 – 90 days	**9,172**	8,805
91 – 180 days	**87**	–
Over 180 days	**25**	23
	9,284	8,828

The fair value of the Group's trade payables at 31 December 2005 was approximate to the corresponding carrying amounts.

31. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

The directors consider that the carrying amount of amount from (to) subsidiaries approximates to their fair value because of the short maturity of this instrument.

Details of the Company's principal subsidiaries of 31 December 2005 are set out in note 45.

Notes to the Financial Statements

For the Year Ended 31 December 2005

32. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans	**79,592**	79,148	**7,384**	–
Bank loans	**163,421**	200,299	**58,271**	80,000
	243,013	279,447	**65,655**	80,000
Secured	**185,948**	194,512	**65,655**	80,000
Unsecured	**57,065**	84,935	**–**	–
	243,013	279,447	**65,655**	80,000

The above amounts are repayable as follows:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**200,415**	176,384	**31,750**	40,000
In the second year	**42,598**	94,321	**33,905**	40,000
In the third to fifth year inclusive	**–**	8,742	**–**	–
	243,013	279,447	**65,655**	80,000
Less: Amount due for settlement within one year (shown under current liabilities)	**(200,415)**	(176,384)	**(31,750)**	(40,000)
Amount due for settlement after one year	**42,598**	103,063	**33,905**	40,000

Bank loans include approximately HK$105,150,000 (2004: HK$120,300,000) fixed-rate borrowings which carry interest ranging from 1.71% to 5.90% per annum (2004: 2.02% to 5.04% per annum) and expose the Group to the fair value interest rate risk. The remaining bank loans are variable-rate borrowings thus exposing the Group to cash flow interest rate risk.

32. BANK BORROWINGS (continued)

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

	US$'000
As at 31 December 2005	19,314
As at 31 December 2004	24,559

During the year, the Group obtained new loans in the amount of HK$131,913,000. The loans bear interest at market rates and will be fully repayable in 2007.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

As at the balance sheet date, the Group has undrawn borrowing facilities with floating rate expiring within one year amounting to approximately HK$307,908,000 (2004: HK$57,952,000).

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2005 **HK$'000**	2004 HK$'000
Interest rate swaps	**46**	–

Major terms of the interest rate swaps are as follows:

Notional amount	**Maturity**
HK$60,000,000	17 June 2008
HK$40,000,000	15 December 2008

For interest rate swap with contract sum of HK$60,000,000, interest rate will swap from three months Hong Kong Interbank Offered Rate ("HIBOR") to 3.48% if the three month HIBOR is equal to or less than 4.12% in each fixing date or interest rate will swap to three month HIBOR – 0.64% if the three month HIBOR is greater than 4.12% in each fixing date.

Notes to the Financial Statements

For the Year Ended 31 December 2005

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

For interest rate swap with contract sum of HK$40,000,000, interest rate will swap from three month HIBOR to 3.58% if the three month HIBOR is equal to or less than 4.28% in each fixing date or interest rate will swap to three month HIBOR – 0.70% if the three months HIBOR is greater than 4.28%.

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the valuation for equivalent instruments at the balance sheet date.

34. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**–**	211	**–**	206
In the second to fifth year inclusive	**–**	–	**–**	–
	–	211	**–**	206
Less: future finance charges	**–**	(5)	**–**	–
Present value of lease obligations	**–**	206	**–**	206
Less: Amount due for settlement within one year (shown under current liabilities)			**–**	(206)
Amount due for settlement after one year			**–**	–

34. OBLIGATIONS UNDER FINANCE LEASES (continued)

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 2005, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2004: 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.

All finance lease obligations are denominated in Hong Kong dollars, the functional currency of the subsidiary which entered into these arrangements.

35. SHARE CAPITAL

	2005		2004	
	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 and at 31 December	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1 January	**1,026,067**	**102,607**	1,019,580	101,958
Issued on declaration of interim scrip dividend *(Note i)*	**–**	**–**	7,063	706
Exercise of share options	**–**	**–**	4,924	493
Repurchase of shares *(Note ii)*	**–**	**–**	(5,500)	(550)
At 31 December	**1,026,067**	**102,607**	1,026,067	102,607

Notes to the Financial Statements

For the Year Ended 31 December 2005

35. SHARE CAPITAL (continued)

Notes:

(i) On 6 December 2004, the Company issued and allotted a total of approximately 7,063,000 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.

(ii) In previous financial year, the Company repurchased and cancelled a total of 5,500,000 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 of repurchase	**Number of ordinary share of HK$0.10 each**	**Price per share**		**Aggregate consideration paid (before expenses)**
		Lowest	**Highest**	
		HK$	HK$	HK$'000
May 2004	5,500,000	0.73	0.80	4,231

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

36. RESERVES

THE COMPANY	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004	280,804	23,990	463	21,380	326,637
Issue of shares (scrip dividend)	5,057	–	–	–	5,057
Exercise of share options	1,163	–	–	–	1,163
Repurchase of shares	–	–	550	(4,257)	(3,707)
Profit for the year	–	–	–	40,416	40,416
Dividend declared	–	–	–	(40,702)	(40,702)
At 31 December 2004 and 1 January 2005	287,024	23,990	1,013	16,837	328,864
Profit for the year	–	–	–	30,072	30,072
Dividend paid	–	–	–	(15,391)	(15,391)
At 31 December 2005	287,024	23,990	1,013	31,518	343,545

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.

Notes to the Financial Statements

For the Year Ended 31 December 2005

37. DISPOSAL OF INTERESTS IN SUBSIDIARIES

Disposal of interests in subsidiaries during the year ended 31 December 2004:

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

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

	HK$'000
Cash consideration	500
Bank balances and cash disposed of	–
Net inflow of cash and cash equivalents in respect of the disposal of interest in a subsidiary	500

The interest in subsidiaries disposed of during the year ended 31 December 2004 did not have any significant contribution to turnover and contributed to HK$835,000 to the Group's profit from operations.

38. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	**1,489**	1,340

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	
	2005	2004
	HK$'000	HK$'000
Within one year	**422**	214
In the second to fifth year inclusive	**220**	–
	642	214

38. OPERATING LEASES (continued)

The Group as lessor

Property rental income earned during the year was HK$555,000 (2004: HK$417,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**537**	402
In the second to fifth year inclusive	**338**	44
	875	446

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

39. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	**194**	690
– authorised but not contracted for	**–**	8,560
	194	9,250

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

40. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	**–**	–	**116,419**	112,861
Guarantee for bank loans granted to a jointly controlled entity	**10,935**	10,721	**–**	–
	10,935	10,721	**116,419**	112,861

41. 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.

42. SHARE-BASED PAYMENT TRANSACTIONS

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.

Notes to the Financial Statements

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42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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 entitles 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 unexercised share options currently permitted to be granted under the 2002 Scheme is 78,864,000 shares which represented 7.69% 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.

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.

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

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 year:

	Number of share options for 2005							
Grantees	At 1/1/2005	Reclassification of categories of grantees	Exercised during the year	Date of exercise	At 31/12/2005	Date of grant (Note a)	Exercise period	Exercise price per share HK$
Directors of the Company	27,930,000	–	–	–	27,930,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
	3,060,000	–	–	–	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
	5,974,000	–	–	–	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
	163,196,000	–	–		163,196,000			
Employees other than directors of the Company	27,500,000	–	–	–	27,500,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
All other eligible participants	7,652,000	–	–	–	7,652,000 (Note b)	23/8/2002	23/8/2002 – 12/4/2006	0.295
	9,948,000	–	–	–	9,948,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
	20,660,000	–	–	–	20,660,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
	38,260,000	–	–		38,260,000			
	228,956,000	–	–		228,956,000			

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For the Year Ended 31 December 2005

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Grantees	Number of share options for 2004 At 1/1/2004	Reclassification of categories of grantees	Exercised during the year	Date of exercise	At 31/12/2004	Date of grant *(Note a)*	Exercise period	Exercise price per share HK$
Directors of the Company	40,556,000	(10,330,000)	(1,296,000)	9/2/2004	27,930,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
		(Notes b & c)	(500,000)	20/4/2004				
			(500,000)	31/5/2004				
	8,416,000	(5,356,000)	–	–	3,060,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
		(Note d)						
	68,882,000	–	–	–	68,882,000	25/6/2003	25/6/2003 – 24/6/2013	0.365
	6,356,000	(382,000)	–	–	5,974,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
		(Note e)						
	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	–	–	7,652,000	23/8/2002	23/8/2002 – 12/4/2006	0.295
		(Note b)						
	7,652,000	2,678,000	(382,000)	25/10/2004	9,948,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
		(Note c)						
	15,304,000	5,356,000	–	–	20,660,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
		(Note d)						
	–	382,000	(382,000)	25/10/2004	–	25/8/2003	25/8/2003 – 24/8/2013	0.740
		(Note e)						
	22,956,000	16,068,000	(764,000)		38,260,000			
	233,880,000	–	(4,924,000)		228,956,000			

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes:

a. The vesting period of the share option is from the date of grant to the end of the exercise period. The share option is fully vested on grant date.

b. 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 were 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".

c. 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 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".

d. 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".

e. 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".

f. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised by Mr. Tang Cornor Kwok Kau, Mr. Lai and the employees during the previous year was approximately HK$0.9715.

g. No share option was lapsed or cancelled during the year.

43. POST BALANCE SHEET EVENTS

(i) Subsequent to 31 December 2005, the Group disposed a property for a consideration of approximately HK$3,000,000.

(ii) In March 2006, the non-freely transferable shareholders (the "Non-freely Transferable Shareholders") of Xinhua Metal Products Co., Ltd. ("Xinhua Metal"), an associate of the Group with its shares listed on the Shanghai Stock Exchange, proposed a share reform plan (the "Xinhua Metal Share Reform Plan") under the requirements of the relevant PRC Government authorities. Pursuant to the announcement of the Company dated 28 March 2006, the Non-freely Transferable Shareholders, including an indirectly wholly owned subsidiary of the Company, have proposed to transfer 3 non-freely transferable shares of Xinhua Metal to each holder of freely transferable shares of Xinhua Metal for every 10 freely transferable shares held by such holders, for conversion of the non-freely transferable shares of Xinhua Metal into shares freely transferable on the Shanghai Stock Exchange. If such conversion takes place, the Group's interest in Xinhua Metal will be diluted from 16.76% to 14.70% and based on the carry value of interest in Xinhua Metal as shown in the Group's 2005 interim report, the value of the Group's interest in Xinhua Metal will be decreased by approximately HK$4,849,000.

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43. POST BALANCE SHEET EVENTS (continued)

(ii) (continued)

The Xinhua Metal Share Reform Plan is subject to the approval of the shareholders of Xinhua Metal and the completion of all necessary formalities. However, the required approval cannot be obtained following the results of the cast of votes by the shareholders of Xinhua Metal on 11 April 2006. The Non-freely Transferable Shareholders will furnish a new proposal for the Xinhua Metal Share Reform Plan in accordance with the relevant laws and regulations of the PRC.

44. RELATED PARTY TRANSACTIONS

Trading transaction

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 a jointly controlled entity of the Group. Shougang International and Shougang HK are the substantial shareholder of the Company and Shougang HK is also the substantial shareholder of Shougang International and Shougang TECH.

	2005	2004
	HK$'000	HK$'000
Consultancy fees paid to the Shougang HK Group	**960**	960
Rental expenses paid to the Shougang HK Group	**1,080**	936
Sales to the Shougang TECH Group	**4,154**	4,576
Corporate guarantees given to a jointly controlled entity	**10,935**	10,721

Compensation of key management personnel

The key management of the Group comprises all directors of the Company, details of their emoluments and share-based payment transactions are disclosed in notes 11 and 42. The emoluments of the directors of the Company are decided by the Remuneration Committee having regard to individual's performance, the Group's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

45. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group 2005	Attributable equity interest of the Group 2004	Principal activities
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK$1 each	**100%***	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	**100%***	100%*	Processing and trading of copper and brass products
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK$1 each	**100%**	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Property investment
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK$1 each	**100%**	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100%**	100%	Trading of metals and investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US$1 each	**100%**	100%	Investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK$1 each	**100%**	100%	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.# 嘉興東方鋼簾線有限公司	PRC	US$70,000,000	**100%**	100%	Manufacturing of steel cord

A wholly foreign owned enterprise.

* *Directly held by the Company.*

45. PRINCIPAL SUBSIDIARIES (continued)

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.

46. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity as at 31 December 2005 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. 上海申佳金屬制品有限公司	Incorporated	PRC	US$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires

47. PARTICULARS OF THE ASSOCIATE

Particulars of the associate at 31 December 2005 are as follows:

Name	Business structure	Place of registration and operation	Issued and paid-up capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Xinhua Metal Products Co., Ltd. *(Note)* 新華金屬制品股份有限公司	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. Since the Group has one representative in the board of directors of Xinhua (being the vice chairman of Xinhua), the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.