Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a private company incorporated in Hong Kong is the controlling shareholder of the Company. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in Notes 20, 21 and 22, respectively.

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

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

HKAS 1 (Amendment)	Capital disclosure[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

Notes to the Financial Statements

For the year ended 31 December 2006

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (continued)

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

[2] Effective for annual periods beginning on or after 1 January 2009

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

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

[5] Effective for annual periods beginning on or after 1 June 2006

[6] Effective for annual periods beginning on or after 1 November 2006

[7] Effective for annual periods beginning on or after 1 March 2007

[8] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. 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 Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary 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.

Goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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 consolidated 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.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated 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 net asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity 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. 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.

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.

Revenue recognition

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

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the 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 from investments is recognised when the shareholders' rights to receive payment have been established.

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

Service income is recognised when services are provided.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent depreciation and impairment loss.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, less accumulated impairment losses. No depreciation is provided on construction in progress until the construction is completed and the properties and asset are ready for use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold properties	2% – 4%
Machinery, moulds and tools	4% – 20%
Equipment, furniture and fixtures	15% – 20%
Motor vehicles	25% to $33^1/_3$%
Leasehold improvements	4% to 20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to the income statement on a straight-line basis over the lease terms. Prepaid lease payments which are to be charged to the income statement in the next twelve months or less are classified as current assets.

Intangible assets

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Impairment

Intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Assets classified as held for sale

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.

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

Club debenture

Club debentures are stated at cost, less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Installation contracts

Revenue generated from installation contracts comprise the followings:

Sale of hardware (including computer hardware, purchased computer software, parts and components and equipment)

Sales of goods are recognised when goods are delivered and title has passed. Cost of good sold are recognised when goods are received and title has passed.

Provision of services (installation, system development, system integration, system design and related services)

Where the outcome of a contract for the installation of network systems can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received included in other payables, deposits received and accruals. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and bills receivables.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

The Group as lessor

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

The Group as lessee

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.

Leasehold land and building

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

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 financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefits costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised as income when the Group was entitled to obtain the grants and are reported separately as "other income".

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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes consolidated income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

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

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 is 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.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The Company's financial assets are classified as loans and receivables. The accounting policies adopted in respect of each category of financial assets are set out below.

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 receivable, other receivables, advances to subsidiaries, amounts due from subsidiaries, amount due from an associate, amount due from a jointly controlled entity, pledged bank deposits, time deposits, 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 assets' 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.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables and held-to-maturity investments. 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.

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, amounts due to subsidiaries, amount due to a related company, amount due to a shareholder, amount due to a jointly controlled entity, bank borrowings and obligations under finance leases) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Company measure the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

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 and the Company have 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 is recognised in profit or loss.

For financial liabilities, they are removed from the Group's and the Company'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 is recognised in profit or loss.

Equity settled share-based payment transactions

Share options granted to employees

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 option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions (continued)

Share options granted to employees (continued)

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to (deficit) retained earnings.

The Group and the Company have not applied HKFRS 2 to share options granted or before 7 November 2002 and after 7 November 2002 but vested before 1 January 2005 in accordance with the transitional provisions of HKFRS 2.

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised immediately as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

Impairment losses (other than goodwill and intangible assets that are not ready for use – see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Group and the Company reviews the carrying amounts of its 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.

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.

Borrowings costs

All borrowings costs are recognized as and included in finance costs in the consolidated income statement in the period in which they are incurred.

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 discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill is HK$138,144,000. Details of the recoverable amount calculation are disclosed in Note 18.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of their useful lives impacts the level of annual depreciation expense recorded. The estimated useful life and dates that the Group place the equipment into production 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. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the write-down is charged against the results of operations.

Estimated impairment of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items. Shall there are changes in market conditions of the inventories, additional impairment may be required.

Notes to the Financial Statements

For the year ended 31 December 2006

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of trade receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. Allowance for bad and doubtful debts of approximately HK$2,920,000 was made for the year ended 31 December 2006 (2005: HK$1,818,000).

Income taxes

As at 31 December 2006, a deferred tax asset of approximately HK$25,998,000 and HK$2,147,000 in relation to unused tax losses and other deductible temporary differences respectively has been recognised (Note 42). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's and the Company's major financial instruments include available-for-sale investments, trade and bills receivables, other receivables, amounts due from subsidiaries, amount due from an associate, amount due from a jointly controlled entity, pledged bank deposits, time deposits, bank balances and cash, trade and bills payables, other payables, time deposits, amounts due to subsidiaries, amount due to a related company, amount due to a shareholder, amount due to a jointly controlled entity and bank borrowings. 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.

5. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Hence, certain trade receivables and trade payables at 31 December 2006 of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure 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 primarily to fixed-rate borrowings and fixed-rate obligations under finance leases (see Notes 36 and 37 for details of these borrowings and obligations under finance leases respectively).

Cash flow interest rate risk

The Group's and the Company's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see Note 36 for details of these borrowings).

The management monitors the interest rate risk and will consider hedging should the need arise.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group and the Company is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet and the amount of contingent liabilities disclosed in Note 46.

Notes to the Financial Statements

For the year ended 31 December 2006

5. FINANCIAL INSTRUMENTS (continued)

a. Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds 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. No material credit risk exposure on financial guarantee granted by the Group is noted because the jointly controlled entity the outsider and the subsidiaries disclosed in note 46 have strong financial position, and the risks for default payment are low.

The Company has no significant credit risk as at 31 December 2006.

b. Fair value

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

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

6. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, revenue arising from installation contracts, services rendered and rental income for the year, and is analysed as follows:

	2006	2005
	HK$'000	HK$'000
Sales of goods	**465,760**	412,713
Revenue from installation contracts	**149,018**	–
Rendering of services	**9,222**	12,541
Property rental income	**388**	1,422
	624,388	426,676

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into six operating divisions. These divisions are the basis on which the Group reports its primary segment information. The intelligent information business is a new segment established during 2006 after the acquisition of SST as set out in Note 40.

Inter-segment sales are charged at prevailing market prices.

Notes to the Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2006

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
REVENUE									
External sales	187,089	110,084	24,453	64,065	42,542	187,718	8,437	–	624,388
Inter-segment sales	34,428	181	–	–	–	–	25,626	(60,235)	–
Total	221,517	110,265	24,453	64,065	42,542	187,718	34,063	(60,235)	624,388
RESULT									
Segment results	992	(9,419)	(18,840)	(3,259)	(66,021)	28,037	(9,460)	(221)	(78,191)
Bank interest income									682
Finance costs									(19,901)
Share of results of associates			17,863			(83)			17,780
Share of results of jointly controlled entities						(10,429)	16,021		5,592
Loss before tax									(74,038)
Income tax expense									534
Loss for the year									(73,504)
BALANCE SHEET									
Segment assets	113,576	64,531	27,196	41,248	179,102	460,626	77,573	–	963,852
Investments in associates			66,315			2,369			68,684
Investments in jointly controlled entities						2,445	176,194		178,639
Unallocated corporate assets									57,263
Consolidated total assets									1,268,438
Segment liabilities	51,191	31,342	9,420	20,763	24,375	112,169	147,593		396,853
Unallocated corporate liabilities									194,193
Consolidated total liabilities									591,046

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006 (continued)

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
OTHER INFORMATION									
Capital expenditure by the Group	4,512	328	689	837	5,049	1,218	2,296	–	14,929
Capital expenditure through acquisition of subsidiaries	–	–	–	–	–	9,191	–	–	9,191
Depreciation	8,034	1,017	3,285	2,024	48,676	1,764	3,884	–	68,684
Amortisation of intangible assets	–	–	–	–	–	1,049	–	–	1,049
Loss (gain) on disposal of property, plant and equipment	654	(99)	–	–	–	(184)	(159)	–	212
Gain on disposal of assets classified as held for sale	–	–	–	–	–	–	5,867	–	5,867
Impairment loss recognised on accounts receivable	964	1,347	–	–	428	181	–	–	2,920
Impairment loss recognised on inventories	–	–	–	–	600	–	–	–	600
Impairment loss recognised on intangible assets	–	–	–	–	–	950	–	–	950

Notes to the Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
REVENUE								
External sales	189,779	91,972	48,898	66,344	20,868	8,815	–	426,676
Inter-segment sales	32,853	4,323	529	–	–	22,555	(60,260)	–
Total	222,632	96,295	49,427	66,344	20,868	31,370	(60,260)	426,676
RESULT								
Segment results	(13,245)	(5,741)	(8,399)	3,693	(226,226)	(17,294)		(267,212)
Bank interest income								186
Finance costs								(13,197)
Share of result of an associate			10,493					10,493
Share of results of jointly controlled entities						13,860		13,860
Loss before tax								(255,870)
Income tax expense								(2,025)
Loss for the year								(257,895)
BALANCE SHEET								
Segment assets	118,465	49,330	73,650	40,350	217,222	91,478		590,495
Investments an associate			46,588					46,588
Investments in jointly controlled entities						186,421		186,421
Unallocated corporate assets								60,543
Consolidated total assets								884,047
Segment liabilities	31,192	15,659	15,191	18,041	16,287	17,748		114,118
Unallocated corporate liabilities								291,045
Consolidated total liabilities								405,163

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For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (continued)

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
OTHER INFORMATION								
Capital expenditure by the Group	5,988	294	2,036	590	740	958		10,606
Depreciation	9,222	1,503	4,215	2,258	78,985	3,761		99,944
Impairment loss recognised on property, plant and equipment	–	–	–	–	123,671	–		123,671
Gain on disposal of property, plant and equipment	–	–	–	–	66	4		70
Impairment loss recognised on accounts receivable	1,011	807	–	–	–	–		1,818
Impairment loss recognised on inventories	3,385	1,178	521	–	–	–		5,084

(b) Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (other than Hong Kong) (the "PRC"), Europe and Australia.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of goods/services:

	2006 HK$'000	2005 HK$'000
The PRC	**205,674**	57,368
Hong Kong	**292,688**	250,718
Europe	**68,444**	61,842
Australia	**6,438**	10,469
Others	**51,144**	46,279
	624,388	426,676

Notes to the Financial Statements

For the year ended 31 December 2006

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**707,177**	281,795	**21,781**	9,796
Hong Kong	**256,675**	308,700	**2,339**	810
	963,852	590,495	**24,120**	10,606

8. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Interest on bank deposits	**682**	186
Proceeds from sale of scrap	**6,081**	4,453
Gain on disposal of assets classified as held for sale	**5,867**	–
Government grants *(Note)*	**200**	–
Recovery from insurance claim	**4,464**	–
Others	**3,602**	3,502
	20,896	8,141

Note: Government grants of HK$200,000 (2005: Nil) have been received in current year as a reward for innovative management of the entity during the year. There are no unfulfilled conditions or contingencies relating to the government grants and subsidies.

Notes to the Financial Statements

For the year ended 31 December 2006

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**10,900**	7,327
Finance leases	**2,984**	4,716
Amount due to related company	**6,017**	1,154
	19,901	13,197

10. INCOME TAX (CREDIT) EXPENSE

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong	**634**	240
Other regions in the PRC	**3,077**	470
	3,711	710
Under(over)provision in prior years:		
Hong Kong	**(295)**	(601)
Change in tax rate *(Note)*	**(1,627)**	–
	1,789	109
Deferred tax *(Note 42)*	**(2,323)**	1,916
	(534)	2,025

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Notes to the Financial Statements

For the year ended 31 December 2006

10. INCOME TAX (CREDIT) EXPENSE (continued)

Certain subsidiaries operating in PRC are qualified as advanced technology enterprises and operate in one of the approved high and new technology industrial development zones of PRC and are thus subject to tax rate of 15% to 16.5%, being the preferential tax rate applicable to companies operating in approved high and new technology industrial development zones of the PRC.

Note: During the year, one of the newly acquired subsidiaries of the Company was designated as one of the Most Outstanding Software Enterprises of year 2005 as defined by the National Development Bureau of the PRC and was subject to income tax rate of 10% for the year ended 31 December 2005, being a preferential tax rate applicable to the Most Outstanding Software Enterprises. This resulted in a tax refund of approximately HK$1,627,000.

The tax (credit) expense for the year can be reconciled to the loss before tax as follows:

	2006	2005
	HK$'000	HK$'000
Loss before tax	**(74,038)**	(255,870)
Tax at Hong Kong Profits Tax rate of 17.5%	**(12,957)**	(44,777)
Tax effect of expenses that are not deductible for tax purposes	**1,056**	6,359
Tax effect of income not taxable for tax purposes	**(298)**	(3,184)
Tax effect of share of results of associates	**(979)**	(1,836)
Tax effect of share of results of jointly controlled entities	**(3,112)**	(2,426)
Utilisation of tax losses not recognised in previous years	**(409)**	(150)
Tax effect of tax losses not recognised	**18,124**	48,640
Effect of different tax rates of subsidiaries operating in PRC	**(37)**	–
Overprovision in prior years	**(295)**	(601)
Change in tax rate	**(1,627)**	–
Tax (credit) expense for the year	**(534)**	2,025

11. LOSS FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including Directors' remuneration *(Note 12)*:		
– Salaries, wages and other benefits	**97,177**	94,366
– Retirement benefit scheme contributions	**4,346**	2,883
Total staff costs	**101,523**	97,249
Impairment loss recognised on accounts receivable	**2,920**	1,818
Impairment loss recognised on inventories	**600**	5,084
Auditor's remuneration	**2,158**	1,422
Cost of inventories recognised as expenses *(Note)*	**585,486**	517,852
Depreciation of property, plant and equipment	**68,684**	99,944
Release of prepaid lease payments to income statement	**393**	471
Amortisation of intangible assets (included in administrative expenses)	**1,049**	–
(Loss) gain on disposal of property, plant and equipment	**(212)**	70
Net foreign exchange losses	**1,834**	670
Research and development costs	**137**	–
Impairment loss recognised on property, plant and equipment	**–**	123,671
Impairment loss recognised on intangible assets	**950**	–
Impairment loss recognised on club debentures	**115**	–
Share of tax of associates (included in share of results of associates	**2,194**	1,253
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**93**	194

Note: Included in the Group's gross profit for the year is profit of HK$11,319,000 (2005: Nil) derived from the disposal of a batch of slow moving finished goods carried by a subsidiary acquired during the year, the costs of which have been reduced substantially to the net realisable value prior to its acquisition by the Group.

Notes to the Financial Statements

For the year ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 14 (2005: 13) Directors are as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payment HK$'000 (Note)	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2006					
Cao Zhong	300	–	–	–	300
Chau Chit	–	985	300	13	1,298
Chen Jianyong	–	650	100	7	757
Zhang Wenhui	–	1,501	–	68	1,569
Tzu San Te	–	1,208	98	12	1,318
Tse Chun Sing	–	1,493	124	149	1,766
Chen Jang Fung	120	–	–	–	120
Leung Kai Cheung	81	–	–	–	81
Leung Shun Sang, Tony	120	–	–	–	120
Chan Wah Tip, Michael	150	–	–	–	150
Choy Hok Man, Constance	63	–	–	–	63
Kan Lai Kuen, Alice	150	–	–	–	150
Kwan Bo Ren, Dick	78	–	–	–	78
Wong Kun Kim	150	–	–	–	150
	1,212	5,837	622	249	7,920

Notes to the Financial Statements

For the year ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Fees	Salaries and other benefits	Performance related incentive payment	Retirement benefit scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000 *(Note)*	HK$'000	HK$'000
2005					
Cao Zhong	120	6,353	–	–	6,473
Zhang Wenhui	–	1,950	150	90	2,190
Luo Zhenyu	–	–	–	–	–
Tzu San Te	–	3,112	98	12	3,222
Yuan Wenxin	–	600	–	6	606
Tse Chun Sing	–	3,558	124	149	3,831
Chen Jang Fung	120	–	–	–	120
Leung Shun Sang, Tony	120	–	–	–	120
Chan Wah Tip, Michael	150	–	–	–	150
Choy Hok Man, Constance	150	–	–	–	150
Kan Lai Kuen, Alice	150	–	–	–	150
Kwan Bo Ren, Dick	150	–	–	–	150
Wong Kun Kim	150	–	–	–	150
	1,110	15,573	372	257	17,312

Note: Performance related incentive payment is determined based on the individual performance of the Directors for the two years ended 31 December 2006.

No Directors waived any emoluments for the years ended 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' Emoluments

During the year, the five highest paid individuals included four directors (2005: four directors), details of whose emoluments are set out above. The emoluments of the remaining one (2005: one) highest paid individual are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,072**	997
Retirement benefits schemes contributions	**7**	12
	1,079	1,009

13. DIVIDEND

No dividend was paid or proposed in respect of the year 2006 (2005: Nil).

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$81,509,000 (2005: HK$259,075,000) and the weighted average number of 1,590,910,274 (2005: 1,199,003,583) ordinary shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's share options were higher than the average market price for shares for both years.

15. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2005	27,450
Reclassified from property, plant and equipment *(Note 16)*	735
Reclassified from prepaid lease payments *(Note 17)*	1,638
Reclassified to assets classified as held for sale *(Note 32)*	(29,100)
Increase in fair value recognised in the income statement	8,263
At 31 December 2005 and 1 January 2006	8,986
Increase in fair value recognised in the income statement	564
At 31 December 2006	9,550

The fair value of the Group's investment properties at 31 December 2006 have been arrived at on the basis of a valuation carried out on that date by Messrs. AA Property Services Limited, independent qualified professional valuers not connected with the Group. Messrs. AA Property Services Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conformed to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. All of the Group's investment properties are rented out under operating leases.

All of the Group's investment properties located in Hong Kong have been pledged to secure the banking facilities granted to the Group.

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
The carrying value of investment properties shown above comprises:		
Long leases in Hong Kong	**6,580**	6,100
Long leases in the PRC	**2,970**	2,886
	9,550	8,986

Notes to the Financial Statements

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Construction in progress HK$'000	Machinery, moulds and tools HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2005	76,120	702	698,620	99,215	7,625	58,793	941,075
Additions	–	1,946	6,486	1,308	514	352	10,606
Write-off/disposals	–	–	–	(171)	(150)	(655)	(976)
Reclassified to investment properties *(Note 15)*	(1,191)	–	–	–	–	–	(1,191)
Reclassified to assets classified as held for sale *(Note 32)*	(2,707)	–	–	–	–	–	(2,707)
Reclassification	–	(548)	–	–	–	548	–
At 31 December 2005 and 1 January 2006	72,222	2,100	705,106	100,352	7,989	59,038	946,807
Additions	181	–	9,779	3,425	470	1,074	14,929
Acquired on acquisition of subsidiaries *(Note 40)*	2,389	–	–	2,752	2,760	1,290	9,191
Write-off/disposals *(Note)*	(134)	–	(10,770)	(316)	(1,852)	(108)	(13,180)
Exchange realignment	103	–	–	216	275	73	667
At 31 December 2006	74,761	2,100	704,115	106,429	9,642	61,367	958,414
DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	26,413	–	278,284	76,395	6,677	25,740	413,509
Provided for the year	2,265	–	88,553	5,593	644	2,889	99,944
Impairment loss recognised in the income statement	–	–	123,671	–	–	–	123,671
Eliminated on write-off/disposals	–	–	–	(157)	(95)	(65)	(317)
Reclassified to investment properties *(Note 15)*	(456)	–	–	–	–	–	(456)
Reclassified to assets classified as held for sale *(Note 32)*	(237)	–	–	–	–	–	(237)
At 31 December 2005 and 1 January 2006	27,985	–	490,508	81,831	7,226	28,564	636,114
Provided for the year	2,628	–	56,472	5,360	854	3,370	68,684
Eliminated on write-off/disposals	(47)	–	(10,309)	(157)	(1,219)	(62)	(11,794)
Exchange realignment	9	–	–	119	165	23	316
At 31 December 2006	30,575	–	536,671	87,153	7,026	31,895	693,320
CARRYING VALUES							
At 31 December 2006	44,186	2,100	167,444	19,276	2,616	29,472	265,094
At 31 December 2005	44,237	2,100	214,598	18,521	763	30,474	310,693

Note: During the year, a flooding happened in the Group's factory in Dongguan, the PRC and caused significant damage to machineries of the Group. As a result, machineries with net book value of approximately HK$461,000 had been written off.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold properties HK$'000	Machinery, moulds and tools HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
THE COMPANY						
COST						
At 1 January 2005 and 31 December 2005	25,695	43,700	18,185	29	21,077	108,686
Additions	–	–	1,215	–	784	1,999
At 31 December 2006	25,695	43,700	19,400	29	21,861	110,685
DEPRECIATION						
At 1 January 2005	13,861	43,700	18,185	29	13,200	88,975
Provided for the year	1,027	–	–	–	751	1,778
At 31 December 2005 and 1 January 2006	14,888	43,700	18,185	29	13,951	90,753
Provided for the year	1,027	–	128	–	829	1,984
At 31 December 2006	15,915	43,700	18,313	29	14,780	92,737
CARRYING VALUES						
At 31 December 2006	9,780	–	1,087	–	7,081	17,948
At 31 December 2005	10,807	–	–	–	7,126	17,933

In prior year, the Directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to recurring losses of the photomask business segment of the Group. Accordingly, impairment losses of approximately HK$123,671,000 has been recognised in respect of machinery used in the photomask business segment of the Group in 2005. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amounts of value in use were 21% for year 2005.

Notes to the Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The carrying value of leasehold properties shown above comprises:				
Long leases in Hong Kong	**2,037**	2,130	**1,928**	2,130
Medium-term leases in Hong Kong	**1,568**	1,610	**–**	–
Long-term leases in the PRC	**550**	597	**–**	–
Medium-term leases in the PRC	**40,031**	39,900	**7,852**	8,677
	44,186	44,237	**9,780**	10,807

As part of the lease payments cannot be allocated reliably between the land portion and building portion with total net book value at year end amounted to HK$2,318,776 (2005: nil), part of the leasehold land is included in property, plant and equipment.

The net book value of machinery of approximately HK$167,444,000 (2005: HK$214,598,000) includes an amount of approximately HK$49,988,000 (2005: HK$66,176,000) in respect of assets held under finance leases.

17. PREPAID LEASE PAYMENTS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The prepaid lease payments comprise:				
Long-term leasehold land in Hong Kong	**6,042**	6,317	**6,041**	6,317
Medium-term leasehold land in Hong Kong	**1,045**	1,073	**–**	–
Long-term leasehold land in the PRC	**255**	277	**–**	–
Medium-term leasehold land in the PRC	**2,830**	2,898	**–**	–
	10,172	10,565	**6,041**	6,317
Analysed for reporting purposes as:				
Current asset	**393**	393	**276**	276
Non-current asset	**9,779**	10,172	**5,765**	6,041
	10,172	10,565	**6,041**	6,317

Notes to the Financial Statements

For the year ended 31 December 2006

18. GOODWILL AND IMPAIRMENT TESTING

The goodwill carried at the balance sheet arose from the acquisition of Sino Stride Technology Holdings Limited ("SST") (Note 40). The operation of SST is the cash generating unit ("CGU") for the purpose of impairment testing of goodwill. The goodwill arising on the acquisition of SST is attributable to the anticipated profitability of the revenue from installation contracts and the anticipated future operating synergies from the combination.

During the year ended 31 December 2006, management has appointed an independent valuer to perform a business valuation on SST. Management of the Group determines that there are no impairments on the goodwill arising from the acquisition of SST as the recoverable amount of SST (being the CGU to which the goodwill has been allocated) is in excess of the aggregate carrying amounts of the goodwill and the net asset value of SST as calculated in the valuation report. The recoverable amount of SST has been determined on the basis of value in use calculation and is based on certain key assumptions as adopted in the valuation report. The value in use calculation is based on cash flow projections prepared from financial budget approved by the management of the Group covering a five-year period, and a discount rate of 14%. Cash flows beyond the 5-year period are extrapolated using a 3% steady growth rate. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flow projections are prepared based on the expected gross margins determined based on past performance and management's expectations for the market development.

19. INTANGIBLE ASSETS

	Development costs HK$'000	Project contracts HK$'000	Total HK$'000
THE GROUP			
COST			
Acquired on acquisition of subsidiaries	3,633	1,473	5,106
Exchange realignment	465	–	465
At 31 December 2006	4,098	1,473	5,571
AMORTISATION AND IMPAIRMENT			
Charge for the year	828	221	1,049
Exchange realignment	322	–	322
Impairment loss recognised in the year	950	–	950
At 31 December 2006	2,100	221	2,321
CARRYING VALUES			
At 31 December 2006	1,998	1,252	3,250
At 31 December 2005	–	–	–

All of the Group's development costs and project contracts were purchased as part of a business combination in the current year.

Development costs and project contracts have definite useful lives. Such intangible assets are amortised on a straight-line basis over 5 years.

Development costs represent costs incurred for the design and development of intelligent information systems for the intelligent business segment.

The amortisation for development costs will commence when the systems are available for use.

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For the year ended 31 December 2006

20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**26,749**	26,749
Capital contributions	**25,789**	16,060
Less: impairment loss recognised	**(977)**	(977)
	51,561	41,832
Advances to subsidiaries	**171,875**	198,288
Less: impairment loss recognised	**(9,729)**	(11,224)
	162,146	187,064

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

The advances to subsidiaries are unsecured and non-interest bearing. In the opinion of the Directors, the Company will not demand repayment within one year from the balance sheet date and the advances are therefore considered as non-current. Such interest-free advances are measured at amortised cost using the effective interest method at the rate of 6%, being the prevailing market borrowing rate of interest for a similar instrument.

Notes to the Financial Statements

For the year ended 31 December 2006

20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company %	Principal activities
3S Technology Holdings Limited 3S 科技控股有限公司	Samoa	1 ordinary share of US$1	100	Investment holding
Aberdeen Industrial Company Limited 阿勃玎實業有限公司	Samoa	1 ordinary share of US$1	100*	Manufacture of telephone accessories, power cords and adaptors
Aberdeen Investments Limited 阿勃玎投資有限公司	Samoa	1 ordinary share of US$1	100*	Property investment
Beijing Sino Stride Powerlink Technology Co., Ltd# 北京中程匯強科技有限公司	The PRC	Registered capital RMB10,000,000	52.4*	System design and sales of system hardware
Choice Delta Assets Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1	71.6*	Investment holding
Chongqing Sino Stride Technology Co., Ltd.@ 重慶中程科技有限公司	The PRC	Registered capital RMB5,600,000	71.3*	System value-added service solution and development
Dongguan Dongjiang Wire and Cable Company Limited@ 東莞東江電線電纜有限公司	The PRC	Registered capital HK$6,000,000	60*	Manufacture of telephone cables and wires

Notes to the Financial Statements

For the year ended 31 December 2006

20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company %	Principal activities
Dongguan Santai Electrical Appliances Co., Ltd.^ 東莞三泰電器有限公司	The PRC	Registered capital HK$48,138,373	100*	Manufacture and sale of electronic products
Dorup Limited 霖高有限公司	Hong Kong	2,000,000 ordinary shares of HK$1 each	60*	Marketing of telephone cords and power cords
Ever Create Profits Limited 創益有限公司	BVI	1 ordinary share of US$1	71.6*	System design and sale of system hardware
Far East PCB Limited 遠東線路板有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Manufacture of printed circuit boards
Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited# 杭州中程萬京光電科技有限公司	The PRC	Registered capital RMB5,000,000	67.7*	System design and sale of system hardware and light emitted diode products
Hitech Electro-Optical Limited 華太光電有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Property investment
Hop Cheong Holdings Limited	Cook Islands	3,500 ordinary shares of US$1 each	100	Investment holding
Hop Cheong Technology Limited 合昌科技有限公司	Hong Kong	1,000,000 ordinary shares of HK$1 each	100*	Provision of management services

Notes to the Financial Statements

For the year ended 31 December 2006

20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company %	Principal activities
Hop Cheong Technology (International) Limited 合昌科技(國際)有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing of high precision metal parts
Jetsbo Investment Limited 捷士寶投資有限公司	Hong Kong	10,000 ordinary shares of HK$1 each	100*	Property investment
Longbright Technology Limited 宏輝科技有限公司	Hong Kong	10,000 ordinary shares of HK$1 each	100*	Manufacture of metal stampings
Made Connection Limited	Samoa	1 ordinary share of US$1	100	Investment holding
Printronics China Limited 普林中國有限公司	Hong Kong	2 ordinary shares of HK$10 each	100*	Investment holding
Printronics Electronics Limited 普林電子有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Investment holding
Printronics Group Limited 普林集團有限公司	Hong Kong	2 ordinary shares of HK$1 each	100	Investment holding
Ready Shine Industrial Limited 巧旋實業有限公司	Hong Kong	2 ordinary shares of HK$1 each	100	Investment holding
Ready Sound Limited 備韻有限公司	Hong Kong	1,000,000 ordinary shares of HK$1 each	60*	Manufacture of tinsel wires

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20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company %	Principal activities
Regal Investments Limited	Samoa	1 ordinary share of US$1	100*	Manufacture of high precision metal parts
Remarkable Mask Technology Company Limited 卓越光掩模科技有限公司	Cayman Islands	45,000,000 ordinary share of US$1 each	100*	Manufacture of photomask
San Tai Industrial Enterprise Limited	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing and distribution of telephone accessories and power cords
Santai Corporate Services Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Provision of management services
Santai Manufacturing Limited 三泰實業有限公司	Hong Kong	10,000 ordinary shares of HK$1 each	100	Trading of goods or the manufacture of telephone accessories and power cords
SCT Electronics Limited SCT 電子有限公司	Hong Kong	2 ordinary shares of HK$1 each	100	Marketing of adaptors and electronic products
SCT International Limited	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing of raw materials for adaptors and electronic products
Sino Stride (BVI) Limited	BVI	101 ordinary shares of US$1 each	71.6*	Investment holding

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20. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company %	Principal activities
Sino Stride Technology (Holdings) Limited 中程科技集團有限公司	Cayman Island	1,082,170,000 ordinary shares of HK$0.01 each	71.6*	Investment holding
Sino Stride Technology Co., Ltd@ 中程科技有限公司	The PRC	Registered capital RMB60,000,000	69.8*	System value-added service solution and development
Sky Land Navigator Technology Limited	Samoa	1 ordinary share of US$1	100*	Investment holding
Sky Light Communication Limited	Samoa	1 ordinary share of US$1	100*	Investment holding

* Indirectly held through subsidiaries
@ Registered under the laws of the PRC as a Sino-foreign co-operative joint venture
^ Registered under the laws of the PRC as a wholly–foreign owned enterprise
\# Registered under the laws of the PRC in the form of domestic incorporated entity

All the subsidiaries operate in Hong Kong except for Aberdeen Industrial Company Limited, Aberdeen Investments Limited, Beijing Sino Stride Powerlink Technology Co., Ltd., Chongqing Sino Stride Technology Co., Ltd., Dongguan Dongjiang Wire and Cable Company Limited, Dongguan Santai Electrical Appliances Co., Ltd., Hangzhou Sino Stride Megain Optic-Electronic Technology Company Limited, Regal Investments Limited and Sino Stride Technology Co., Ltd., which operate in the PRC.

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 issued any debt securities at the end of the year.

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For the year ended 31 December 2006

21. INVESTMENTS IN ASSOCIATES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Cost of unlisted investments in associates	**21,316**	18,957
Share of post-acquisition profits and reserves, net of dividends received	**47,368**	27,631
	68,684	46,588

At 31 December 2006, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group	Principal activities
Hangzhou Sino Stride Hospital Xingda System Technology Co., Ltd. 杭州中程興達醫療設備有限公司	Corporate	The PRC	20.31%	Sale of medical equipment
Hangzhou Vico Software Engineering Co. Ltd. 杭州維科軟件工程有限責任公司	Corporate	The PRC	38.40%	System value-added service solution and development
Shenzhen Fasten Sino Stride Technology Limited 深圳市法爾勝中程科技有限公司	Corporate	The PRC	27.92%	Sale of hardware and equipment related to system integration and system design
Tianjin Printronics Circuit Corporation ("TPC") 天津普林電路股份有限公司	Sino-foreign equity joint venture	The PRC	28.17%	Manufacture of printed circuit boards
Zhejiang University Sino Stride Fire Prevention Engineering Co. Ltd. 浙江浙大中程消防工程有限公司	Corporate	The PRC	26.18%	Fire prevention system installation

The Group's entitlement to share in the profits of the associates is in proportion to its ownership interests.

21. INVESTMENTS IN ASSOCIATES (continued)

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

	2006 HK$'000	2005 HK$'000
Total assets	433,163	322,987
Total liabilities	(190,331)	(157,605)
Net assets	242,832	165,382
Group's share of net assets of associates	68,684	46,588
Revenue	344,340	242,478
Profit for the year	63,055	31,755
Group's share of result of associates for the year	17,780	10,493

The Group has discontinued recognition of its share of losses of an associate. The amount of the unrecognised share of the loss of this associate, extracted from its management accounts, both for the year and cumulatively, are as follows:

	2006 HK$'000	2005 HK$'000
Unrecognised share of loss for the year	125	–
Accumulated unrecognised share of loss	125	–

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22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**42,928**	42,928
Share of post-acquisition profits and reserves, net of dividends received	**135,711**	143,493
	178,639	186,421

At 31 December 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation and operation	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company	Issued and fully paid share capital/ registered capital	Principal activities
Hoperise Industrial Limited 興揚實業有限公司	Incorporated	Hong Kong	50%	HK$20,010,000	Copper wire drawing
深圳天際信和科技有限公司 Sky Light Communication (Shenzhen) Limited	Sino-foreign equity joint venture	The PRC	75%	RMB20,000,000	Development and integration of the space information technical and multimedia software
深圳天地導航科技有限公司 Sky Land Navigator Technology (Shenzhen) Limited	Sino-foreign equity joint venture	The PRC	75%	RMB20,000,000	Development and integration for software and hardware for the intelligent traffic field

According to the joint venture agreements, the Group is in a position to exercise joint control over the above entities through participation in their Boards of Directors. Accordingly, these entities have been accounted for as jointly controlled entities.

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

	2006	2005
	HK$'000	HK$'000
Results		
Revenue	**1,289,279**	1,048,856
Profit for the year	**18,136**	35,920
Group's share of results of jointly controlled entities for the year	**5,592**	13,860
Financial position		
Current assets	**586,908**	584,774
Non-current assets	**94,045**	93,440
Current liabilities	**(325,266)**	(313,287)
Non-current liabilities	**(145)**	(306)
Net assets	**355,542**	364,621
Group's share of net assets of jointly controlled entities	**178,639**	186,421

23. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	HK$'000
Unlisted equity investments	**6,250**	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC, with proportion of nominal value of registered capital held by the Group ranging from 1% to 13.76% as at 31 December 2006. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

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24. CLUB DEBENTURES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cost	**960**	960	**780**	780
Less: Impairment loss recognised	**(515)**	(400)	**(415)**	(400)
	445	560	**365**	380

Club debentures are tested for impairment annually and whenever there is an indication that it may be impaired. An impairment loss of approximately HK$115,000 (2005: Nil) was recognised during the year by reference to the market values.

25. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Raw materials	**44,080**	48,942
Work in progress	**9,660**	11,364
Finished goods	**52,805**	13,080
	106,545	73,386

26. TRADE AND BILLS RECEIVABLES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Trade and bills receivables	**241,049**	198,707
Less: accumulated impairment	**(51,098)**	(62,354)
	189,951	136,353

Trading terms with customers are principally on credit, except for new customers, cash on delivery is normally required. Invoices are normally payable within 30 to 180 days of issuance, except for certain well established customers, the terms are extended to one year. Each customer has a designated credit limit.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**129,495**	106,928
91 – 180 days	**43,453**	24,199
181 – 365 days	**12,879**	4,148
1 – 2 years	**3,872**	1,078
Over 2 years	**252**	–
	189,951	136,353

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For the year ended 31 December 2006

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2006	2005
	HK$'000	HK$'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses *(Note)*	**727,992**	–
Less: progress billings	**(589,838)**	–
	138,154	–
Analysed for reporting purposes of:		
Amounts due from contract customers	**157,599**	–
Amounts due to contract customers	**(19,445)**	–
	138,154	–

Note: Amount includes cost of hardware sold which has not been billed amounted to approximately HK$464,459,000 (2005: Nil).

At 31 December 2006, retentions held by customers for contract works amounted to approximately HK$52,218,000 (2005: Nil) which was included in amounts due from customers for contract work. Advances received from customers for contract work amounted to approximately HK$21,031,000 (2005: Nil) which was included in other payables, deposits received and accruals.

28. AMOUNT DUE FROM (TO) AN ASSOCIATE AND A JOINTLY CONTROLLED ENTITY

THE GROUP

The amounts are unsecured, non interest-bearing and repayable on demand. The amount due to a jointly controlled entity is aged within three months based on invoice date.

29. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non interest-bearing and repayable on demand.

30. PLEDGED BANK DEPOSITS

THE GROUP

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. The deposits have been pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry interest at market rates ranging from 1.98% to 3.35% per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

31. THE DEPOSITS BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

The Group's deposits carry interest at prevailing bank saving deposits rate from approximately 0.75% to 3% (2005: 0.04% to 2.07%) per annum.

32. ASSETS CLASSIFIED AS HELD FOR SALE

In August 2005, the Directors resolved to dispose of a property (the "transaction") for a total consideration of HK$38,800,000 of which approximately HK$27,152,000 was received in 2006 and approximately HK$11,648,000 was received in 2005. The transaction was completed in February 2006. The carrying value of the property as at 31 December 2005 was approximately HK$32,933,000, of which approximately HK$29,100,000 was transferred from investment properties, HK$2,470,000 was transferred from property, plant and equipment and HK$1,363,000 was transferred from prepaid lease payments. The property is included in the "Others" business segment of the Group as set out in Note 7(a).

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33. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0 – 90 days	**88,442**	54,910
91 – 180 days	**29,828**	6,815
181 – 365 days	**11,446**	153
1 – 2 years	**5,765**	791
Over 2 years	**2,461**	–
	137,942	62,669

34. AMOUNT DUE TO A RELATED COMPANY

THE GROUP AND THE COMPANY

The balance represents amount due to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang Holding. The amount is unsecured and repayable on demand. The amounts of approximately HK$86,263,000 (2005: HK$62,263,000), HK$36,674,000 (2005: HK$20,000,000) and HK$20,546,000 (2005: Nil) bear interest at 5%, 5.1375% and 5.825% per annum, respectively. The remaining balances of year 2005 are non-interest bearing.

35. AMOUNT DUE TO A SHAREHOLDER

THE GROUP AND THE COMPANY

At 31 December 2005, the amount was unsecured, interest bearing at interest rates ranging from 0.632% to 2% per annum and was fully settled during the year.

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36. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured bank loans	**45,865**	87,395	**44,645**	77,516
Unsecured bank loans	**86,660**	–	**–**	–
Secured trust receipt loans	**26,078**	18,949	**22,273**	18,949
Secured bank overdrafts	**6,283**	1,940	**5,568**	999
Unsecured bank overdrafts	–	5,783	–	5,783
	164,886	114,067	**72,486**	103,247
Carrying amount repayable:				
On demand or within one year	**141,188**	73,723	**48,792**	62,903
More than one year, but not exceeding two years	**20,990**	20,172	**20,988**	20,172
More than two years, but not exceeding three years	**858**	20,172	**858**	20,172
More than three year, but not exceeding four years	**902**	–	**902**	–
More than four year, but not exceeding five years	**948**	–	**948**	–
	164,886	114,067	**72,488**	103,247
Less: Amounts due within one year shown under current liabilities	**(141,188)**	(73,723)	**(48,790)**	(62,903)
	23,698	40,344	**23,698**	40,344

Bank borrowings include approximately HK$86,660,000 (2005: Nil) fixed-rate borrowings which carry interest ranging from 5.58% to 6.73% per annum. The remaining bank borrowings are variable-rate borrowings which carry interest ranging from 4% to 9% per annum (2005: 3% to 9% per annum).

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36. BANK BORROWINGS (continued)

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

	THE GROUP		THE COMPANY	
	USD	YEN	USD	YEN
	'000	'000	'000	'000
As at 31 December 2006	332	22,880	332	22,880
As at 31 December 2005	1,853	20,182	578	–

During the year, the Group obtained new loans in the amount of HK$86,567,000 (2005: HK$13,470,000). The loans bear interest at market rates and will be repayable in or before 2008.

The bank borrowings and banking facilities are secured by:

(i) certain of the investment properties, prepaid lease payments, and buildings of the Group, which had an aggregate carrying value at the balance sheet date of approximately HK$6,580,000 (2005: HK$32,932,000), HK$1,045,000 (2005: HK$1,073,000) and HK$1,568,000 (2005: HK$1,610,000) respectively.

(ii) certain of the machinery of the Group which had an aggregate carrying value at the balance sheet date of approximately HK$74,059,000 (2005: HK$98,745,000);

(iii) the carrying amount of accounts receivable of the Group pledged as security for banking facilities amounted to approximately HK$1,221,000 (2005: HK$9,878,000);

(iv) the pledge of certain of the Group's bank deposits amounting to approximately HK$20,049,000 (2005: Nil); and

(v) certain properties owned by Sino Stride Holdings Limited, a related company. Details of relationship are set out in Note 48.

37. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machineries under finance leases. The average lease terms is three years. For the year ended 31 December 2006, the average effective borrowing rate was ranged from 4.76% to 8.16% (2005: 4.23% to 7.93%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	**23,550**	37,653	**22,447**	34,686
In more than one year but not more than two years	**7,001**	23,550	**6,858**	22,447
In more than two years but not more than three years	**–**	7,001	**–**	6,858
	30,551	68,204	**29,305**	63,991
Less: Future finance charges	**(1,246)**	(4,213)	**N/A**	N/A
Present value of lease obligations	**29,305**	63,991	**29,305**	63,991
Less: Amount due for settlement within one year shown under current liabilities			**(22,447)**	(34,686)
			6,858	29,305

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

The Group's finance lease obligations that are denominated in currencies other than the functional currency of a subsidiary which entered into these arrangements are approximately USD52,000 (2005: USD828,000).

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38. SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Ordinary shares of HK$0.25 each				
Authorised:				
At beginning of year	**2,000,000,000**	**500,000**	2,000,000,000	500,000
Increase during the year *(Note)*	**2,000,000,000**	**500,000**	–	–
At end of year	**4,000,000,000**	**1,000,000**	2,000,000,000	500,000
Issued and fully paid:				
At beginning of year	**1,199,003,583**	**299,751**	1,199,003,583	299,751
Issued as consideration for the acquisition of SST *(Note 40)*	**516,465,926**	**129,116**	–	–
At end of year	**1,715,469,509**	**428,867**	1,199,003,583	299,751

Note: By the ordinary resolution passed on 26 May 2006 at the annual general meeting, the authorised share capital of the Company was increased from HK$500 million to HK$1,000 million by the creation of additional 2,000 million shares of HK$0.25 each. The new shares rank pari passu with the existing shares in all respects.

39. SHARE OPTION SCHEME

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the Board of Directors (the "Board") of the Company may, 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 (the "Stock Exchange"), grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The maximum number of shares issued and to be issued upon exercise of options granted to each eligible participant under the 2002 Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company in issue, as at the date of grant.

The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years after it has been granted.

On acceptance of an offer, HK$1 should be payable by the grantee. 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 sheet issued by the Stock Exchange on the date on which the option is offered to an eligible participant; (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; and (c) the nominal value of shares of the Company on the date of offer of option to an eligible participant.

Notes to the Financial Statements

For the year ended 31 December 2006

39. SHARE OPTION SCHEME (continued)

The following tables disclose details and movements in share options under the 2002 Scheme during the years ended 31 December 2006 and 2005:

For the year ended 31 December 2006

Category of grantees	Number of shares under options At 1.1.2006 and 31.12.2006	Date of grant	Exercise period	Exercise price per share
Directors of the Company	14,242,000	15.11.2002	15.11.2002–14.11.2012	HK$0.58
	3,200,000	14.3.2003	14.3.2003–13.3.2013	HK$0.495
	17,442,000			
Employees of the Group	2,922,000	15.11.2002	15.11.2002–14.11.2012	HK$0.58
	2,000	14.3.2003	14.3.2003–13.3.2013	HK$0.495
	2,924,000			
Other participants	40,130,000	15.11.2002	15.11.2002–14.11.2012	HK$0.58
	14,069,000	14.3.2003	14.3.2003–13.3.2013	HK$0.495
	15,982,000	18.3.2004	18.3.2004–17.3.2014	HK$1.20
	70,181,000			
	90,547,000			
Exercisable at the end of the year	90,547,000			

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For the year ended 31 December 2006

39. SHARE OPTION SCHEME (continued)

For the year ended 31 December 2005

	Number of shares under options							
Category of grantees	At 1.1.2005	Transferred from other category during the year	Transferred to other category during the year	Cancelled during the year	At 31.12.2005	Date of grant	Exercise period	Exercise price per share
Directors of the Company	14,242,000	–	–	–	14,242,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	9,243,000	–	(6,043,000)[1]	–	3,200,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	64,212,000[3]	–	(12,040,000)[1]	(52,172,000)[3]	–	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	11,982,000	–	(11,982,000)[2]	–	–	18.03.2004	18.03.2004 – 17.03.2014	HK$1.20
	99,679,000	–	(30,065,000)	(52,172,000)	17,442,000			
Other individuals with options granted in excess of limit	–	6,043,000[1]	–	–	6,043,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	8,026,000	–	–	–	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	16,052,000	12,040,000[1]	–	(28,092,000)[3]	–	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	24,078,000	18,083,000	–	(28,092,000)	14,069,000			
Employees of the Group	2,922,000	–	–	–	2,922,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	2,000	–	–	–	2,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	2,924,000	–	–	–	2,924,000			
Other participants	32,104,000	–	–	–	32,104,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	8,026,000	–	–	–	8,026,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	4,000,000	11,982,000[2]	–	–	15,982,000	18.3.2004	18.3.2004 – 17.3.2014	HK$1.20
	44,130,000	11,982,000	–	–	56,112,000			
	170,811,000	30,065,000	(30,065,000)	(80,264,000)	90,547,000			
Exercisable at the end of the year					90,547,000			

Notes to the Financial Statements

For the year ended 31 December 2006

39. SHARE OPTION SCHEME (continued)

Notes:

1. A Director of the Company resigned on 12 January 2005. The share options granted to such grantee remain exercisable up to the original expiry dates and were re-classified from the category of "Directors of the Company" to the category of "Other individuals" with options granted in excess of limit during the year ended 31 December 2005.

2. A Director of the Company resigned on 5 August 2005. The share options granted to such grantee remain exercisable up to the original expiry date and were re-classified from the category of "Directors of the Company" to the category of "Other participants" during the year ended 31 December 2005.

3. The share options granted on 13 October 2003 are exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as from 13 October 2006. All the share options granted on 13 October 2003 were cancelled during the year ended 31 December 2005.

Except for (3) above, all other share options are vested at the date of grant.

No share options were granted by the Company for both years.

No expense in respect of share options granted was recognised for the year ended 31 December 2006 (2005: HK$15,720,000). The share options were exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as at 13 October 2003. During the year ended 31 December 2005, all share options granted on 13 October 2003 have been cancelled.

40. ACQUISITION OF SUBSIDIARIES

In March 2006, the Company acquired 758,819,000 shares of SST, representing approximately 69.8% of the issued share capital of SST through share exchange of 505,879,292 shares of the Company. Subsequently on 4 April 2006, the Company further acquired an aggregate of 15,880,000 shares of SST, representing approximately 1.5% of the issued share capital of SST through share exchange of 10,586,634 shares of the Company. In aggregate, the Company acquired 71.3% interest in SST. The fair value of the ordinary shares of the Company issued as the consideration for the acquisition of SST, determined using the published price available at the dates of acquisition, amounted to HK$227,077,000. SST was incorporated in Cayman Islands and its shares were listed on the Growth Enterprise Market of the Stock Exchange until 6 November 2006, on which date the listing of the shares on the Stock Exchange was withdrawn following the voluntary withdrawal of listing of the shares of SST. The principal activities of SST and its subsidiaries are development and provision of system integration solutions, system design and sale of system hardware.

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For the year ended 31 December 2006

40. ACQUISITION OF SUBSIDIARIES (continued)

During November 2006, 4,130,000 shares were repurchased from public by SST and the shares were subsequently cancelled, resulting in the increase in effective shareholding of the Group in SST from 71.3% to 71.6% as at 31 December 2006.

The net assets acquired in the above purchase transactions, and the goodwill arising, are as follows:

	Acquiree's carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	9,191	–	9,191
Intangible assets	3,633	1,473	5,106
Interests in associates	2,359	–	2,359
Available-for-sale investments	6,014	–	6,014
Inventories	36,452	–	36,452
Trade receivables	44,686	–	44,686
Other receivables	51,532	–	51,532
Amounts due from customers for contract works	167,737	–	167,737
Amount due from a related company	4,753	–	4,753
Pledged bank deposits	20,276	–	20,276
Bank balances and cash	11,617	–	11,617
Trade and bill payables	(85,228)	–	(85,228)
Other payables and accruals	(18,273)	–	(18,273)
Amounts due to customers for contract work	(42,445)	–	(42,445)
Tax liabilities	(6,193)	–	(6,193)
Bank borrowings	(78,846)	–	(78,846)
	127,265	1,473	128,738
Minority interests	(4,007)	–	(4,007)
	123,258	1,473	124,731
71.3% of net assets acquired			88,933
Goodwill			138,144
Total consideration, satisfied by share exchange			227,077

Notes to the Financial Statements

For the year ended 31 December 2006

40. ACQUISITION OF SUBSIDIARIES (continued)

SST contributed approximately HK$187,718,000 to the Group's revenue and approximately HK$24,765,000 to the Group's profit attributable to equity holders of the Company for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on 1 January 2006, total Group's revenue for the year would have been approximately HK$674,415,000 and loss for the year would have been approximately HK$112,131,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

41. RESERVES

	Share premium account HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000 *(Note a)*	Share option reserve HK$'000	Deficit HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2005	405,628	2,084	53,690	10,602	(86,618)	385,386
Loss for the year	–	–	–	–	(327,513)	(327,513)
Recognition of equity-settled share based payments	–	–	–	15,720	–	15,720
Cancellation of share options *(Note b)*	–	–	–	(26,322)	26,322	–
At 31 December 2005 and 1 January 2006	405,628	2,084	53,690	–	(387,809)	73,593
Loss for the year	–	–	–	–	(34,299)	(34,299)
Shares issued at premium for acquisition of subsidiaries	97,961	–	–	–	–	97,961
Share issue expenses	(1,801)	–	–	–	–	(1,801)
At 31 December 2006	501,788	2,084	53,690	–	(422,108)	135,454

41. RESERVES

Notes:

(a) By a special resolution passed at an extraordinary general meeting and subsequently approved by the Supreme Court of Hong Kong in 1993, the share premium account of the Company was reduced by an amount of HK$270,000,000. This amount was used to reduce the then Company's accumulated losses of HK$216,310,000 and the balance of HK$53,690,000 was credited to the Company's capital reserve which is non-distributable. At the balance sheet date, the Company did not have any reserve available for distribution (2005: Nil).

(b) During the year ended 31 December 2005, the Company cancelled all the outstanding options granted on 13 October 2003 and exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as from 13 October 2006. In accordance with HKFRS 2, as the outstanding options has been cancelled during the vesting period, it should be accounted for, as an acceleration of vesting and any amount unrecognised should be charged to income statement immediately. Upon the cancellation of options, the share option reserve of approximately HK$26,322,000 was transferred to the accumulated losses of the Company.

42. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Tax losses	Impairment loss on inventories	Impairment loss on trade receivables	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
At 1 January 2005	63,083	(64,673)	–	–	–	(1,590)
(Credit) charge to income for the year	(32,713)	34,629	–	–	–	1,916
At 31 December 2005 and 1 January 2006	30,370	(30,044)	–	–	–	326
(Credit) charge to income for the year	(4,222)	4,046	(403)	(40)	(1,704)	(2,323)
At 31 December 2006	26,148	(25,998)	(403)	(40)	(1,704)	(1,997)

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For the year ended 31 December 2006

42. DEFERRED TAXATION (continued)

	Accelerated tax depreciation HK$'000
THE COMPANY	
At 1 January 2005	(1,658)
Charge to income for the year	1,658
At 31 December 2005, 1 January 2006 and 31 December 2006	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2006 HK$'000	2005 HK$'000
Deferred tax assets	**2,147**	–
Deferred tax liabilities	**(150)**	(326)
	1,997	(326)

The Group had recognised deferred tax assets amounted approximately HK$2,147,000 in relation to deductible temporary differences of subsidiary as it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the balance sheet date, the Group had unused tax losses of HK$739,010,000 (2005: HK$660,902,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$148,560,000 (2005: HK$171,680,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$590,450,000 (2005: HK$489,222,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

As at the balance sheet date, the Company had unrecognised tax losses amounted to approximately HK$41,141,000 (2005: HK$28,305,000) which can be carried forward indefinitely. The deferred tax assets have not been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements

For the year ended 31 December 2006

43. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2005, the Group entered into finance leases in respect of the acquisition of plant and equipment with a total capital value at the inception of the lease of approximately HK$5,000,000 resulting from a sale and leaseback transaction.

44. OPERATING LEASES

The Group and the Company as lessee

Minimum lease payments paid under operating leases during the year amounted to approximately HK$5,152,000 (2005: HK$2,529,000).

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		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**4,971**	1,245	**1,309**	–
In the second to third year inclusive	**8,333**	3,670	**327**	–
Over five years	**3,100**	8,706	**–**	–
	16,404	13,621	**1,636**	–

Operating lease payments represent rentals payables by the Group and the Company for certain of its office properties, factory premises and quarters for directors and staff. Leases are negotiated and rentals are fixed for terms ranging from one to ten years.

The Group as lessor

Property and machinery rental income earned during the year was approximately HK$553,000 (2005: HK$1,510,000), less direct operating expenses of approximately HK$33,000 (2005: HK$75,000).

The Group leases its investment properties and machineries under operating lease arrangements, with leases negotiated for terms ranging from one to three years. Certain of the Group's properties held for rental purposes, with a carrying amount of HK$29,100,000, have been disposed of in the current year balance sheet date. The remaining properties and machineries are expected to generate rental yields of 2% (2005: 4%) on an ongoing basis. All the properties held have committed tenants for the next three years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Financial Statements

For the year ended 31 December 2006

44. OPERATING LEASES (continued)

The Group as lessor (continued)

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

	2006	2005
	HK$'000	HK$'000
Within one year	**2,061**	219
In the second to third years inclusive	**4,231**	54
	6,292	273

The Company had no operating lease commitment or arrangement as a lessor as at 31 December 2006 and 2005.

45. CAPITAL COMMITMENTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in financial statements in respect of the acquisition of:		
– property, plant and equipment	**660**	4,217
– intangible assets	**650**	–
	1,310	4,217
Capital expenditure in respect of acquisition of intangible assets authorised but not contracted for	**920**	–

The Company had no capital commitment at 31 December 2006 and 2005.

46. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantee for banking facilities utilised by a jointly controlled entity	**67,278**	81,733	**67,278**	81,733
Gross guarantee for banking facilities utilised by an outsider	**9,000**	–	**–**	–
Guarantee for finance leases utilised by a subsidiary	**–**	–	**29,305**	63,992
	76,278	81,733	**96,583**	145,725

The Group and the Company have given financial guarantees to banks and financial institutions in respect of banking facilities and finance leases granted to a jointly controlled entity, an outsider and a subsidiary free of charge.

The fair value of the financial guarantee contracts at date of inception is immaterial.

47. RETIREMENT BENEFIT SCHEMES

The Group operates a Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 8% to 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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For the year ended 31 December 2006

48. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had significant related party transactions as follows:

	Notes	2006 HK$'000	2005 HK$'000
Management fees paid to a controlling shareholder	(i)	**960**	960
Management fees paid to a related company	(ii)	**570**	480
Rental paid to a controlling shareholder	(iii)	**77**	–
Rental paid to a related company	(iv)	**912**	816
Rental paid to another related company	(v)	**208**	–
Interest expenses paid to a controlling shareholder	(vi)	**–**	370
Interest expenses paid to a related company	(vii)	**6,017**	1,154
Sales to an associate	(viii)	**–**	4,981
Sales to a jointly controlled entity	(ix)	**86**	15,144
Utility expenses charged to a jointly controlled entity	(x)	**8,042**	11,411
Purchases from a jointly controlled entity	(xi)	**29,456**	39,876
Purchase from related companies	(xii)	**9,554**	4,154
Management fee received from a jointly controlled entity	(xiii)	**1,180**	1,130

Notes:

(i) Management fees were paid to Shougang Holding for the provision of management services.

(ii) Management fees were paid to Shougang Concord International Enterprises Company Limited ("Shougang International"), an associate of Shougang Holding, for the provision of management services.

(iii) Rentals were paid to Shougang Holding in relation to premises occupied and held by the Group as staff quarter.

(iv) Rentals were paid to Good News Investment Limited, a wholly-owned subsidiary of Shougang International relating to the premises occupied and used by the Group as its office.

48. RELATED PARTY TRANSACTIONS (continued)

(a) *Notes: (continued)*

(v) Rentals were paid to Sino Stride Holdings Limited, a company beneficially owned by Mr. Chau Chit, a Director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and an outsider, in the proportion of 50%, 30% and 20%, respectively, relating to the premises occupied and used by the Group as its staff quarter.

(vi) Interest expenses were paid to Shougang Holding for the interest bearing loan advanced to the Group. Details of the loan are set out in Note 35.

(vii) Interest expenses were paid to Shougang (Hong Kong) Finance Company Limited, a subsidiary of Shougang Holding for granting interest-bearing loan advanced to the Group. Details of the loan are set out in Note 34.

(viii) Sales to an associate were made according to the comparable market prices and conditions offered to the major customers of the Group.

(ix) Sales to a jointly controlled entity were made according to the comparable market prices and conditions offered to the major customers of the Group.

(x) Utility expenses charged to a jointly controlled entity were related to the reimbursement of certain utility costs incurred by it. The reimbursement was based on the actual costs incurred.

(xi) Purchases from a jointly controlled entity were made according to the comparable market prices and conditions offered by similar suppliers to the Group.

(xii) Purchases were made from Hing Cheong Metals (China & Hong Kong) Limited and Meta International Limited, both are wholly-owned subsidiaries of Shougang Concord Century Holdings Limited of which Shougang Holding is a controlling shareholder.

(xiii) Management fee were received from a jointly controlled entity for the provision of management service.

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48. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel

The remuneration of Directors and key executives during the year was set out in Note 12 which is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(c) Mr. Chau Chit, the director of the Company and Ms. Ting Hiu Wan, wife of Mr. Chau Chit, provided personal guarantee amounting to approximately HK$26,305,000 (2005: Nil) and HK$5,000,000 (2005: Nil) respectively to banks to secure general banking facilities granted to the Group.