1. CORPORATE INFORMATION

Luks Industrial (Group) Limited is a limited liability company incorporated in Bermuda. The principal office of the Company is located at 5/F., Cheong Wah Factory Building, No. 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of cement
- manufacture and sale of traditional Chinese medicine products
- manufacture and sale of electronic products
- sale of plywood and other wood products
- property investment
- investment holding

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Interests in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes-Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases-Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37, 38, HKFRS 2 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to a jointly-controlled entity was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of a jointly-controlled entity is presented net of the Group's share of tax attributable to a jointly-controlled entity.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17–Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above change are summarised in note 2.4 to the financial statements. The comparative amounts in the consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

In the opinion of the directors, certain prepaid land lease payments of the land situated in Hong Kong and Mainland China of the Group cannot be allocated reliably between the land and buildings element, therefore, the entire prepaid land lease payments of those land are included in the cost of land and buildings and are amortised over the shorter of the lease terms and useful lives.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(b) HKAS 32 and HKAS 39-Financial Instruments

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses which are expected to be other than temporary, on an individual basis. The amounts of such impairment losses are charged to the income statement for the period in which they arise. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of approximately HK$234,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in debt investments and equity securities for trading purposes as short term investments. The debt investments and equity securities were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, the debt investments held by the Group at 1 January 2005 in the amount of approximately HK$1,094,000 are designated as debt investments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement, while the equity securities held by the Group at 1 January 2005 in the amount of approximately HK$1,777,000 are designated as available-for-sale equity investments and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The effect of the above changes are summarised in note 2.4 to the financial statements.

(c) HKAS 40-Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits has been adjusted to reflect this change. The effects of the above change are summarised in note 2.4 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(d) HKFRS 2-Share-based Payment

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December 2003 and at 31 December 2004.

(e) HKFRS 3-Business Combinations and HKAS 36-Impairment of Assets

In prior years, negative goodwill arising on acquisitions prior to 1 January 2001 was credited to the consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill remaining in the consolidated capital reserve against retained profits.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(f) HK(SIC)-Int 21-Income Taxes-Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January 2005	Effect of adopting HKAS 17#	HKASs 32# and 39*	HKAS 40*	HKFRS 3*	HK(SIC)-Int 21#	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of debt and equity investments	Surplus on revaluation of investment properties	Derecognition of negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Property, plant and equipment	(27,665)	–	–	–	–	(27,665)
Prepaid land lease payments	26,607	–	–	–	–	26,607
Available-for-sale equity investments	–	2,011	–	–	–	2,011
Long term investment	–	(234)	–	–	–	(234)
Prepayments, deposits and other receivables	1,058	–	–	–	–	1,058
Debt investments at fair value through profit or loss	–	1,094	–	–	–	1,094
Short term investments	–	(2,871)	–	–	–	(2,871)
						–
Liabilities/equity						
Deferred tax liabilities	–	–	–	–	23,205	23,205
Capital reserve	–	–	–	(10,938)	–	(10,938)
Investment property revaluation reserve	–	–	(109,272)	–	(23,205)	(132,477)
Retained profits	–	–	109,272	10,938	–	120,210
						–

* Adjustments taken effect prospectively from 1 January 2005
\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(a) Effect on the consolidated balance sheet (Cont'd)

	Effect of adopting					
At 31 December 2005	HKAS 17	HKASs 32 and 39	HKAS 40	HKFRS 3	HK(SIC)-Int 21	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of debt and equity investments	Surplus on revaluation of investment properties	Discontinuation of amortisation of goodwill/ derecognition of negative goodwill	Deferred tax on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets						
Property, plant and equipment	(26,607)	–	–	–	–	(26,607)
Prepaid land lease payments	24,494	–	–	–	–	24,494
Goodwill/negative goodwill	–	–	–	30,826	–	30,826
Available-for-sale equity investments	–	995	–	–	–	995
Long term investment	–	(234)	–	–	–	(234)
Prepayments, deposits and other receivables	2,113	–	–	–	–	2,113
Debt investments at fair value through profit or loss	–	1,094	–	–	–	1,094
Short term investments	–	(1,855)	–	–	–	(1,855)
						30,826
Liabilities/equity						
Deferred tax liabilities	–	–	–	–	40,452	40,452
Capital reserve	–	–	–	(10,938)	–	(10,938)
Investment property revaluation reserve	–	–	(273,573)	–	–	(273,573)
Retained profits	–	–	273,573	41,764	(40,452)	274,885
						30,826

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting			
	HKFRS 3 & HKAS 38	HKAS 40	HK(SIC)-Int 21	
Effect of new policies (Increase/(decrease))	**Negative goodwill**	**Surplus on revaluation of investment properties**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1 January 2004				
Investment property revaluation reserve	–	–	(20,076)	(20,076)
				(20,076)
1 January 2005				
Capital reserve	(10,938)	–	–	(10,938)
Investment property revaluation reserve	–	(109,272)	(23,205)	(132,477)
Retained profits	10,938	109,272	–	120,210
				(23,205)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
	HKAS 1	HKAS 40	HKFRS 3	HK(SIC) -Int 21	
Effect of new policies	Share of post-tax profits and losses of a jointly-controlled entity	Surplus on revaluation of investment properties	Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income	Deferred tax on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005					
Increase in other income and gains	–	141,096	–	–	141,096
Decrease in other expenses	–	–	30,826	–	30,826
Decrease in share of profits and losses of a jointly-controlled entity	(18)	–	–	–	(18)
(Increase)/decrease in tax	18	–	–	(17,247)	(17,229)
Total increase/(decrease) in profit	–	141,096	30,826	(17,247)	154,675
Increase/(decrease) in basic earnings per share	–	28.8 cents	6.3 cents	(3.5) cents	31.6 cents
Year ended 31 December 2004					
Decrease in share of profits and losses of a jointly-controlled entity	(2,727)	–	–	–	(2,727)
Decrease in tax	2,727	–	–	–	2,727
Total change in profit	–	–	–	–	–

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)
For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations *(applicable to business combinations for which the agreement date is on or after 1 January 2005)*
Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, deferred tax assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	18%-20%
Plant and machinery	4%-15%
Furniture, fixtures and office equipment	9%-20%
Computer equipment	18%-20%
Launch	15%
Motor vehicles	14%-25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, structures, plant and machinery and other items of property, plant and equipment under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Technical know-how

Technical know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Properties under development

Properties under development are stated at cost which includes the cost of land, construction, financing and other directly related expenses.

Properties under development where construction has not yet commenced or has been deferred, are included as land held for development and are stated at cost less any impairment losses.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and a jointly-controlled entity, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis, and are stated at cost less any impairment losses which are expected to be other than temporary, on an individual investment basis. The amounts of such impairment losses are charged to the income statement for the period in which they arise.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets (Cont'd)

Applicable to the year ended 31 December 2004: (Cont'd)

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

Applicable to the year ended 31 December 2005:
Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale the near term. Gains or losses on investments held for trading are recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets (Cont'd)

Applicable to the year ended 31 December 2005: (Cont'd)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designed as available for sale or are not classified in the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates with the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets (Cont'd)

Applicable to the year ended 31 December 2005: (Cont'd)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the 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). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (applicable to the year ended 31 December 2005) (Cont'd)

Assets carried at amortised cost (Cont'd)
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial assets (applicable to the year ended 31 December 2005) (Cont'd)
Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for future environmental restoration costs are made based on the present values of the future costs expected to be incurred.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Impairment assessment for trade receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectability and an aging analysis of trade receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

The carrying amounts of accounts receivables at 31 December 2005 was approximately HK$20,091,000 (2004: HK$14,201,000).

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.

3. SUMMARY ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty (Cont'd)

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was approximately HK$93,558,000 (2004: HK$262,375,000). More details are set out in note 17 to the financial statements.

Estimation of fair value of investment properties
In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amounts of investment properties at 31 December 2005 was approximately HK$657,310,000 (2004: HK$529,026,000).

4. SEGMENT INFORMATION

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

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

(a) the cement products segment includes the Group's manufacture and sale of cement products for use in the construction industry;

(b) the traditional Chinese medicine products segment includes the Group's manufacture and sale of traditional Chinese medicine products;

(c) the property investment segment includes the Group's investments in industrial, commercial and residential premises for their rental income potential;

(d) the investment segment includes the Group's investments in and holding of equity investments; and

(e) the corporate and others segment comprises corporate income and expense items and the Group's manufacture and sale of electronic products and plywood products.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Cement products		Traditional Chinese medicine products		Property investment		Investment		Corporate and others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
														(Restated)
Segment revenue:														
Sales to external customers	**231,675**	211,954	**4,535**	4,629	**74,452**	56,967	**–**	–	**2,412**	4,594	**–**	–	**313,074**	278,144
Intersegment sales	**–**	–	**–**	–	**432**	432	**–**	–	**85,131**	–	**(85,563)**	(432)	**–**	–
Other income and gains	**704**	717	**17**	77	**162,228**	6,983	**14,004**	4,734	**4,250**	20,167	**–**	–	**181,203**	32,678
Total	**232,379**	212,671	**4,552**	4,706	**237,112**	64,382	**14,004**	4,734	**91,793**	24,761	**(85,563)**	(432)	**494,277**	310,822
Segment results	**61,480**	58,433	**(189,537)**	(45,804)	**203,851**	25,986	**3,169**	(4,554)	**7,177**	10,459	**(20,965)**	–	**65,175**	44,520
Interest income													**3,113**	2,115
Finance costs													**(6,028)**	(3,994)
Share of profits and losses of a jointly-controlled entity													**(3,313)**	3,806
Profit before tax													**58,947**	46,447
Tax													**(33,311)**	(3,582)
Profit for the year													**25,636**	42,865

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Group	Cement products		Traditional Chinese medicine products		Property investment		Investment		Corporate and others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
														(Restated)
Assets and liabilities														
Segment assets	442,940	347,990	99,830	255,123	672,063	561,481	43,056	59,112	32,918	28,050	(20,965)	–	1,269,842	1,251,756
Interests in a jointly-controlled entity													2,906	5,697
Unallocated assets													78,104	92,406
Total assets													1,350,852	1,349,859
Segment liabilities	17,913	40,454	9,345	20,603	60,142	70,509	1,473	23,049	41,944	25,237	–	–	130,817	179,852
Unallocated liabilities													173,922	61,330
Total liabilities													304,739	241,182
Other segment information:														
Depreciation and amortisation	17,067	17,221	518	30,912	899	5,530	941	1,100	440	189	–	–	19,865	54,952
Capital expenditure	112,317	5,738	188	212	121	205	487	–	899	1,460	(20,965)	–	93,047	7,615
Reversal of impairment of an investment security	–	–	–	–	–	–	–	234	–	–	–	–	–	234
Impairment of goodwill	–	–	169,000	–	–	–	–	–	–	–	–	–	169,000	–
Impairment of an interest in an associate	–	–	–	–	–	–	3	128	–	–	–	–	3	128
Impairment of technical know-how	–	–	3,000	–	–	–	–	–	–	–	–	–	3,000	–
Provision for bad and doubtful debts	–	–	–	3	–	20	8,311	6,741	–	55	–	–	8,311	6,819
Impairment of available-for-sale equity investments	–	–	–	–	1,003	–	–	–	–	–	–	–	1,003	–
Fair value gains on investment properties, net	–	–	–	–	141,096	–	–	–	–	–	–	–	141,096	–

4. SEGMENT INFORMATION (Cont'd)

(b) Geographical segments

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group	Hong Kong		Mainland China		Vietnam		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	8,540	8,416	9,088	10,400	295,446	259,328	–	–	313,074	278,144
Other segment information:										
Segment assets	363,031	517,941	86,663	85,767	922,123	746,151	(20,965)	–	1,350,852	1,349,859
Capital expenditure	700	674	–	–	113,312	6,941	(20,965)	–	93,047	7,615

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2005 *HK$'000*	2004 *HK$'000*
Revenue		
Sale of cement	**231,675**	211,954
Sale of electronic products	**1,412**	2,431
Sale of traditional Chinese medicine products	**4,535**	4,629
Sale of plywood and other wood products	**1,000**	2,163
Gross rental income	**74,452**	56,967
	313,074	278,144
Other income and gains		
Bank interest income	**3,113**	2,115
Write-back of trade and other payables	**34,419**	6,438
Write-back of impairment of an interest in a jointly-controlled entity	**–**	4,901
Write-back of impairment of an investment security	**–**	234
Gain on disposal of items of property, plant and equipment	**46**	283
Gain on disposal of investment properties	**431**	–
Gain on early redemption of the principal of a promissory note	**–**	20,000
Excess over the cost on acquisition of an additional interest in a subsidiary	**3,755**	–
Others	**1,456**	822
	43,220	34,793

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold		**147,093**	137,218
Depreciation	14 & 15	**19,865**	22,568
Goodwill amortisation*	17	**–**	30,826
Amortisation of technical know-how**	18	**500**	500
Recognition of prepaid land lease payments	16	**1,058**	1,058
Research and development costs*		**5,193**	4,581
Auditors' remuneration		**680**	919
Minimum operating lease payments in respect of land and buildings		**816**	792
Employee benefits expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**20,589**	19,146
Pension scheme contributions		**267**	811
		20,856	19,957
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**2,617**	2,232
Foreign exchange differences, net		**3,587**	1,325
Impairment of goodwill*	17	**169,000**	–
Impairment of an interest in an associate*		**3**	128
Impairment of technical know-how*	18	**3,000**	–
Provision for bad and doubtful debts*		**8,311**	6,819
Impairment of available-for-sale equity investments*		**1,003**	–
Loss on write-off of a deregistered subsidiary*		**–**	3,708
Reversal of impairment of an investment security		**–**	(234)

* These items are included in "Other expenses" on the face of the consolidated income statement.

** This item is included in "Cost of sales" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**5,979**	6,898
Loans from directors repayable within five years	**–**	44
Finance leases	**49**	66
	6,028	7,008
Waiver of interest expense on a promissory note	**–**	(3,014)
	6,028	3,994

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**700**	625
Other emoluments:		
Salaries and allowances	**5,434**	5,434
Discretionary bonuses	**160**	–
Pension scheme contributions	**31**	36
	5,625	5,470
	6,325	6,095

8. DIRECTORS' REMUNERATION

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Liu Li Yuan	**100**	100
Liang Fang	**100**	100
Tam Kan Wing	**8**	–
Chan Yuk Tong	**92**	25
	300	225

There was no other emoluments payables to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Luk King Tin	100	1,950	–	–	2,050
Cheng Cheung	100	1,534	–	7	1,641
Luk Yan	100	1,040	160	12	1,312
Fan Chiu Tat, Martin	100	910	–	12	1,022
	400	5,434	160	31	6,025
2004					
Luk King Tin	100	1,950	–	–	2,050
Cheng Cheung	100	1,534	–	12	1,646
Luk Yan	100	1,040	–	12	1,152
Fan Chiu Tat, Martin	100	910	–	12	1,022
	400	5,434	–	36	5,870

There was no arrangement under which a director waived or agreed any remuneration during the year.

9. HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,788**	1,600
Discretionary bonuses	**385**	–
Pension scheme contributions	**24**	24
	2,197	1,624

The number of non-director, highest paid employees whose remuneration fell within the following bands:

	Number of employees	
	2005	2004
Nil-HK$1,000,000	**–**	2
HK$1,000,001-HK$1,500,000	**2**	–
	2	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	**3**	–
Underprovision/(overprovision) in prior years	**7**	(72)
Current – Elsewhere	**11,167**	1,842
Deferred (note 36)	**22,134**	1,812
Total tax charge for the year	**33,311**	3,582

In accordance with the relevant tax rules and regulations in Vietnam, certain of the Group's subsidiaries in Vietnam enjoy income tax exemptions and reductions. At present, the standard income tax rate applicable to these subsidiaries is 15%.

10. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group–2005

	Hong Kong		Mainland China		Vietnam		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(176,991)		10,807		225,131		58,947	
Tax at the statutory tax rate	(30,973)	(17.5)	3,565	33.0	33,770	15.0	6,362	10.8
Lower tax rate for specific provinces or local tax authority	–	–	(1,583)	(14.6)	(4,166)	(1.8)	(5,749)	(9.7)
Adjustments in respect of current tax of previous periods	7	–	–	–	–	–	7	–
Profits and losses attributable to a jointly-controlled entity	–	–	(1,093)	(10.0)	–	–	(1,093)	(1.9)
Income not subject to tax	(7,122)	(4.0)	(873)	(8.2)	(1,505)	(0.7)	(9,500)	(16.1)
Expenses not deductible for tax	34,227	19.3	985	9.1	10,670	4.8	45,882	77.8
Tax losses utilised	–	–	–	–	(203)	(0.1)	(203)	(0.3)
Tax losses recognised as deferred tax assets	–	–	–	–	(6,419)	(2.9)	(6,419)	(10.9)
Tax losses not recognised	3,821	2.2	–	–	203	0.1	4,024	6.8
Tax charge at the Group's effective rate	(40)	–	1,001	9.3	32,350	14.4	33,311	56.5

10. TAX (Cont'd)

Group–2004

	Hong Kong		Mainland China		Vietnam		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(48,060)		6,605		87,902		46,447	
Tax at the statutory tax rate	(8,411)	(17.5)	2,180	33.0	6,593	7.5	362	0.8
Lower tax rate for specific provinces or local tax authority	–	–	(161)	(2.4)	–	–	(161)	(0.3)
Adjustments in respect of current tax of previous periods	(72)	(0.1)	–	–	–	–	(72)	(0.2)
Profits and losses attributable to a jointly-controlled entity	–	–	899	13.6	–	–	899	1.9
Income not subject to tax	(6,315)	(13.1)	(2,783)	(42.1)	(2,997)	(3.4)	(12,095)	(26.0)
Expenses not deductible for tax	9,639	20.0	173	2.6	313	0.4	10,125	21.8
Tax losses utilised	–	–	–	–	(512)	(0.6)	(512)	(1.1)
Tax losses not recognised	5,036	10.4	–	–	–	–	5,036	10.8
Tax charge at the Group's effective rate	(123)	(0.3)	308	4.7	3,397	3.9	3,582	7.7

The share of tax attributable to a jointly-controlled entity amounting to approximately HK$18,000 (2004: HK$2,727,000) is included in "Share of profits and losses of a jointly-controlled entity" on the face of the consolidated income statement.

11. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was approximately HK$19,375,000 (2004: loss of HK$13,233,000) (note 39(b)).

12. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim-HK3 cents (2004: HK3 cents) per ordinary share	14,721	14,721
Proposed final-HK5 cents (2004: HK5 cents) per ordinary share	24,535	24,535
	39,256	39,256

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

A diluted earnings per share amount for the year ended 31 December 2005 has not been disclosed as no diluting events existed during that year.

The calculation of diluted earnings per share for the year ended 31 December 2004 was based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the ordinary shares in issue for the year ended 31 December 2004, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**22,413**	30,632

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Cont'd)

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**490,705,418**	413,517,805
Effect of dilution-weighted average number of ordinary shares:		
Warrants	–	7,200,449
Share options	–	733,130
	490,705,418	421,451,384

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Launch HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005									
At 31 December 2004 and 1 January 2005:									
Cost:									
As previously reported	104,618	2,062	370,555	14,124	860	2,307	12,968	840	508,334
Effect of adopting HKAS 17 (note 2.2(a))	(34,904)	–	–	–	–	–	–	–	(34,904)
As restated	69,714	2,062	370,555	14,124	860	2,307	12,968	840	473,430
Accumulated depreciation:									
As previously reported	(33,026)	(1,709)	(121,387)	(11,764)	(399)	(2,287)	(7,663)	–	(178,235)
Effect of adopting HKAS 17 (note 2.2(a))	7,239	–	–	–	–	–	–	–	7,239
As restated	(25,787)	(1,709)	(121,387)	(11,764)	(399)	(2,287)	(7,663)	–	(170,996)
Net carrying amount	43,927	353	249,168	2,360	461	20	5,305	840	302,434
At 1 January 2005, net of accumulated depreciation	43,927	353	249,168	2,360	461	20	5,305	840	302,434
Additions	342	180	884	279	36	–	487	90,839	93,047
Disposals and write-off	–	(53)	–	(16)	–	(20)	–	–	(89)
Depreciation provided during the year	(1,854)	(170)	(15,199)	(1,034)	(129)	–	(1,479)	–	(19,865)
Transfers	3,300	–	1,918	–	–	–	–	(1,918)	3,300
Exchange realignment	(362)	(1)	(3,006)	(18)	(3)	–	(44)	(10)	(3,444)
At 31 December 2005, net of accumulated depreciation	45,353	309	233,765	1,571	365	–	4,269	89,751	375,383
At 31 December 2005:									
Cost	73,429	2,060	368,666	14,246	894	2,251	13,353	89,751	564,650
Accumulated depreciation	(28,076)	(1,751)	(134,901)	(12,675)	(529)	(2,251)	(9,084)	–	(189,267)
Net carrying amount	45,353	309	233,765	1,571	365	–	4,269	89,751	375,383

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Launch HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2004									
At 1 January 2004:									
Cost:									
As previously reported	104,172	2,012	368,192	14,160	610	2,307	13,015	2,980	507,448
Effect of adopting HKAS 17 (note 2.2(a))	(34,904)	–	–	–	–	–	–	–	(34,904)
As restated	69,268	2,012	368,192	14,160	610	2,307	13,015	2,980	472,544
Accumulated depreciation:									
As previously reported	(31,207)	(1,536)	(107,006)	(10,989)	(311)	(2,280)	(7,088)	–	(160,417)
Effect of adopting HKAS 17 (note 2.2(a))	6,181	–	–	–	–	–	–	–	6,181
As restated	(25,026)	(1,536)	(107,006)	(10,989)	(311)	(2,280)	(7,088)	–	(154,236)
Net carrying amount	44,242	476	261,186	3,171	299	27	5,927	2,980	318,308
At 1 January 2004, net of accumulated depreciation	44,242	476	261,186	3,171	299	27	5,927	2,980	318,308
Additions	834	50	2,397	359	250	–	740	2,985	7,615
Disposals	–	–	–	(25)	–	–	–	(2,539)	(2,564)
Depreciation provided during the year	(944)	(173)	(15,215)	(1,131)	(88)	(7)	(1,333)	–	(18,891)
Transfers	–	–	2,567	–	–	–	–	(2,567)	–
Exchange realignment	(205)	–	(1,767)	(14)	–	–	(29)	(19)	(2,034)
At 31 December 2004, net of accumulated depreciation	43,927	353	249,168	2,360	461	20	5,305	840	302,434
At 31 December 2004:									
Cost:									
As previously reported	104,618	2,062	370,555	14,124	860	2,307	12,968	840	508,334
Effect of adopting HKAS 17 (note 2.2(a))	(34,904)	–	–	–	–	–	–	–	(34,904)
As restated	69,714	2,062	370,555	14,124	860	2,307	12,968	840	473,430
Accumulated depreciation:									
As previously reported	(33,026)	(1,709)	(121,387)	(11,764)	(399)	(2,287)	(7,663)	–	(178,235)
Effect of adopting HKAS 17 (note 2.2(a))	7,239	–	–	–	–	–	–	–	7,239
As restated	(25,787)	(1,709)	(121,387)	(11,764)	(399)	(2,287)	(7,663)	–	(170,996)
Net carrying amount	43,927	353	249,168	2,360	461	20	5,305	840	302,434

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005				
At 31 December 2004 and 1 January 2005:				
Cost	42	190	435	667
Accumulated depreciation	(8)	(71)	(63)	(142)
Net carrying amount	34	119	372	525
At 1 January 2005, net of accumulated depreciation	34	119	372	525
Additions	21	4	–	25
Depreciation provided during the year	(9)	(29)	(109)	(147)
At 31 December 2005, net of accumulated depreciation	46	94	263	403
At 31 December 2005:				
Cost	63	195	435	693
Accumulated depreciation	(17)	(101)	(172)	(290)
Net carrying amount	46	94	263	403

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Furniture, fixtures and office equipment *HK$'000*	Computer equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2004				
At 1 January 2004:				
Cost	28	177	–	205
Accumulated depreciation	(3)	(34)	–	(37)
Net carrying amount	25	143	–	168
At 1 January 2004, net of accumulated depreciation	25	143	–	168
Additions	14	13	435	462
Depreciation provided during the year	(5)	(37)	(63)	(105)
At 31 December 2004, net of accumulated depreciation	34	119	372	525
At 31 December 2004:				
Cost	42	190	435	667
Accumulated depreciation	(8)	(71)	(63)	(142)
Net carrying amount	34	119	372	525

The Group's leasehold land and buildings included above are held, under the following lease terms:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Situated in Hong Kong:		
Long term leases	**48,136**	44,060
Situated elsewhere:		
Short term leases	**25,293**	25,654
	73,429	69,714

At 31 December 2005, certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam with an aggregate net book value of approximately HK$36,739,929 (2004: HK$46,824,000) and plant and machinery with an aggregate net book value of approximately HK$245,418,000 (2004: HK$219,938,000) were pledged to secure general banking facilities granted to the Group (note 32).

15. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount at 1 January	**529,026**	513,377
Disposals	**(5,160)**	–
Transfer to owner-occupied properties	**(3,300)**	–
Net profit from a fair value adjustment	**141,096**	21,596
Depreciation provided during the year	**–**	(3,677)
Exchange realignment	**(4,352)**	(2,270)
Carrying amount at 31 December	**657,310**	529,026

The investment properties are held under the following lease terms:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Situated in Hong Kong:		
Long term leases	**8,029**	10,854
Medium term leases	**88,061**	70,040
Situated elsewhere:		
Long term leases	**52,015**	45,231
Medium term leases	**474,520**	367,089
Short term lease	**34,685**	35,812
	657,310	529,026

The investment properties were revalued on 31 December 2005 by Chung, Chan & Associates Chartered Surveyors, independent professionally qualified valuers, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 41(a) to the financial statements.

At 31 December 2005, certain of the Group's investment properties situated in Hong Kong with a fair value of approximately HK$76,800,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group (note 32).

Further particulars of the Group's investment properties are included on page 109.

16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**27,665**	28,723
As restated	**27,665**	28,723
Recognised during the year	**(1,058)**	(1,058)
Carrying amount at 31 December	**26,607**	27,665
Current portion included in prepayments, deposits and other receivables	**(2,113)**	(1,058)
Non-current portion	**24,494**	26,607

The leasehold land is held under a short term and medium term leases and is situated in Vietnam.

17. GOODWILL/NEGATIVE GOODWILL

Group

	Goodwill
	HK$'000
31 December 2005	
At 1 January 2005:	
Cost as previously reported	317,471
Effect of adopting HKFRS 3 (note 2.2(e))	(55,096)
Cost as restated	262,375
Accumulated amortisation as previously reported	(55,096)
Effect of adopting HKFRS 3 (note 2.2(e))	55,096
Accumulated amortisation as restated	–
Net carrying amount	262,375
Cost at 1 January 2005	262,375
Acquisition of minority interests (note 40(a))	183
Impairment during the year	(169,000)
Cost and carrying amount at 31 December 2005	93,558
At 31 December 2005:	
Cost	262,558
Accumulated impairment	(169,000)
Net carrying amount	93,558

17. GOODWILL/NEGATIVE GOODWILL (Cont'd)

Group

	Goodwill
	HK$'000
31 December 2004	
At 1 January 2004:	
Cost	317,471
Accumulated amortisation	(24,270)
Net carrying amount	293,201
Cost at 1 January 2004, net of accumulated amortisation	293,201
Amortisation provided during the year	(30,826)
At 31 December 2004	262,375
At 31 December 2004:	
Cost	317,471
Accumulated amortisation	(55,096)
Net carrying amount	262,375

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of 10 to 20 years.

The amount of negative goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of Statement of Standard Accounting Practice 30 in 2001, was approximately HK$10,938,000, as at 31 December 2004. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill of approximately HK$10,938,000 was derecognised with a corresponding adjustment to the opening balance of retained profits.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Traditional Chinese medicine products cash-generating unit;
- Property investment cash-generating unit; and
- Cement products cash-generating unit.

17. GOODWILL/NEGATIVE GOODWILL (Cont'd)

Impairment testing of goodwill (continued)

Traditional Chinese medicine products cash-generating unit
The directors considered that an impairment loss of HK$169 million was charged to the income statement for the current year due to the slow down of traditional Chinese medicine products business. The impairment loss was provided based on the estimated recoverable amount of the traditional Chinese medicine products cash-generating unit, which was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to cash flow projections is 15% (2004: 22%).

Property investment cash-generating unit
The recoverable amount of the property investment cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to the cash flow projections is 12% (2004: 12%).

Cement products cash-generating unit
The recoverable amount of the cement products cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to the cash flow projections is 6% (2004: 6%).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Traditional Chinese medicine products	**77,716**	246,716
Property investment	**15,659**	15,659
Cement products	**183**	–
	93,558	262,375

Key assumptions were used in the value in use calculation of the traditional Chinese medicine products, property investment and cement products cash-generating units for 31 December 2005 and 31 December 2004. The cash flow projections for the cash-generating units are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

18. TECHNICAL KNOW-HOW

	Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January:		
Cost	**4,375**	4,375
Accumulated amortisation	**(875)**	(375)
Net carrying amount	**3,500**	4,000
Cost at 1 January, net of accumulated amortisation	**3,500**	4,000
Amortisation provided during the year	**(500)**	(500)
Impairment during the year	**(3,000)**	–
At 31 December	**–**	3,500
At 31 December:		
Cost	**4,375**	4,375
Accumulated amortisation	**(1,375)**	(875)
Accumulated impairment	**(3,000)**	–
Net carrying amount	**–**	3,500

19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**785,890**	785,890
Due from subsidiaries	**377,381**	309,849
Due to subsidiaries	**(484,512)**	(371,550)
	678,759	724,189
Provision for amounts due from subsidiaries	**(518)**	(29,680)
	678,241	694,509

The amount due from Vigconic (International) Limited ("VI") as at 31 December 2004 of HK$29,680,000 was unsecured, bore interest at the rate of 1% over the Hong Kong dollar prime rate per annum and was repaid during the year. The remaining amounts due from/to subsidiaries are unsecured, interest-free and are not repayable within one year. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Luks Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$2	**100**	100	Investment holding
Luks Industrial Company Limited*	Hong Kong	HK$168,048,482	**100**	100	Property investment and investment holding
Luks Industrial (Bao An) Company Limited*#	Mainland China	HK$39,000,000	**100**	100	Property investment
Luks Vietnam Company Limited ("Luks Vietnam")*	British Virgin Islands/ Hong Kong	US$3	**100**	100	Investment holding
Luks Timber Investments Limited*	Hong Kong	HK$2	**100**	100	Investment holding
Luks Timber (Vietnam) Limited*	Vietnam	VND15,715,698,000	**100**	100	Sale of plywood
Luks Cement Company Limited ("Luks Cement")*	British Virgin Islands/ Hong Kong	US$50,000	**100**	87.5	Investment holding

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Luks Cement (Vietnam) Limited (formerly known as Luks-Vaxi Company Limited) ("Luks Cement (Vietnam)")*	Vietnam	VND329,356,867,000	**100**	68.1	Manufacture and sale of cement
Luks Land Company Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Luks Land (Vietnam) Limited*	Vietnam	VND193,639,051,000	**100**	100	Property investment and management
Prime Wise Investments Limited*	Hong Kong/ Mainland China	HK$2	**100**	100	Property investment
Redmond Investments Limited*	Hong Kong/ Mainland China	HK$2	**100**	100	Property investment
VI*	Hong Kong	HK$400,000	**75**	75	Manufacture and sale of traditional Chinese medicine products

* Held through subsidiaries

Registered as a wholly-foreign-owned enterprise under the PRC law

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.

20. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**24,560**	27,351
Due to a jointly-controlled entity	**(21,654)**	(21,654)
	2,906	5,697

The amount due to the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

		Percentage of			
Name	**Place of incorporation/ registration and operations**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activity**
Chengdu Leming House Development Company Limited	Mainland China	75	57	75	Property development

The above jointly-controlled entity is held through a 68%-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**17,720**	34,097
Non-current assets	**25,619**	21,780
Current liabilities	**(17,894)**	(28,526)
Non-current liabilities	**(885)**	–
Net assets	**24,560**	27,351
Share of the jointly-controlled entity's results:		
Revenue	**7,560**	94,393
Other income and gains	**212**	86
Total revenue	**7,772**	94,479
Total expenses	**(11,067)**	(87,946)
Tax	**(18)**	(2,727)
Profit/(loss) after tax	**(3,313)**	3,806

21. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**–**	–
Loans to associates	**27,943**	27,943
	27,943	27,943
Provision for impairment	**(27,943)**	(27,943)
	–	–

The loans to the associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal associate are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of equity attributable to to the Group 2005	2004	Principal activities
Luks Electronic Company Limited*	Ordinary share of HK$100 each	Hong Kong	**40**	40	Investment holding

* Indirectly held through a subsidiary

The above table lists the associate of the Group which, in the opinion of the directors, affected the results for the year. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group had discontinued the recognition of its share of losses of Luks Electronic Company Limited because the share of losses of this associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate for the current year and cumulatively was approximately HK$3,000 (2004: HK$52,000) and HK$11,265,000 (2004: HK$11,262,000), respectively.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2005	2004
	HK$'000	*HK$'000*
Assets	**15**	15
Liabilities	**28,072**	28,069
Loss after tax	**3**	129

22. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	*HK$'000*
Land held for development:		
At 1 January	**3,054**	3,054
Write-off	**(3,054)**	–
At 31 December	**–**	3,054
Provision for impairment:		
At 1 January	**(3,054)**	(3,054)
Write-off	**3,054**	–
At 31 December	**–**	(3,054)
Net carrying amount	**–**	–

23. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENT

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed equity investment, at fair value (2004: at cost less impairment):		
Overseas	**234**	234
Unlisted equity investments, at fair value:		
Overseas	**761**	–
	995	234

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate.

The fair value of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated income statement, are reasonable, and that they are the most appropriate values at the balance sheet date.

24. TIME DEPOSIT

The time deposit is denominated in United State dollars ("USD") with original maturity of two years when acquired. The carrying amount of the time deposit approximates to its fair value.

25. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**2,193**	3,079
Work in progress	**3,020**	2,123
Finished goods	**8,251**	8,346
	13,464	13,548

26. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 60 days for its trade debtors. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
0-30 days	**10,653**	9,826
31-60 days	**4,901**	951
61-90 days	**883**	546
91-120 days	**730**	688
Over 120 days	**2,924**	2,190
	20,091	14,201

The trade receivables of HK$200,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group.

27. DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed debt investments, at market value:				
Overseas	**1,094**	1,094	**1,094**	1,094
Unlisted equity investments, at market value:				
Overseas	**–**	1,777	**–**	–
	1,094	2,871	**1,094**	1,094

The above debt investments at 31 December 2005 were classified as held for trading.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**38,903**	42,297	**3,461**	22,015
Time deposits	**78,591**	117,535	**78,104**	92,355
	117,494	159,832	**81,565**	114,370
Less: Non-pledged time deposits with original maturity of not less than three months when acquired	**–**	(27,924)	**–**	(27,924)
Pledged time deposits for trade finance facilities	**(27,351)**	–	**(27,351)**	–
Cash and cash equivalents	**90,143**	131,908	**54,214**	86,446

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Cont'd)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") and Vietnamese Dong ("VND") amounted to approximately HK$1,107,000 (2004: HK$2,277,000) and HK$15,058,000 (2004: HK$6,391,000), respectively. The RMB and VND are not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations and the Law on Foreign Investment in Vietnam, the Group is permitted to exchange RMB and VND for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
0-30 days	**7,958**	6,891
31-60 days	**1,522**	692
61-90 days	**30**	82
91-120 days	**7,474**	53
Over 120 days	**7,891**	14,882
	24,875	22,600

The trade payables are non-interest-bearing and normally settled on 30 to 90 days terms.

30. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

31. DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and is repayable within one year, except for an amount of HK$1,100,000 at 31 December 2004 which was repayable after one year.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000
Current				
Finance lease payables (note 33)		2005	–	216
Bank loans – secured	5-7	2006	**58,329**	33,563
			58,329	33,779
Non-current				
Bank loans – secured	5-7	2007-2010	**62,794**	23,402
			121,123	57,181
Analysed into:				
Bank loans repayable:				
Within one year			**58,329**	33,563
In the second year			**24,524**	2,934
In the third to fifth years, inclusive			**38,270**	20,468
			121,123	56,965
Other borrowings repayable:				
Within one year			–	216
			121,123	57,181

Notes:

(a) At the balance sheet date, the following assets were pledged to secure the above bank loans and general banking facilities granted to the Group:

(i) certain of the Group's leasehold land and buildings situated in Hong Kong and Vietnam with an aggregate net book value of approximately HK$36,739,929 (2004: HK$46,824,000);

(ii) certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of approximately HK$76,800,000 (2004: Nil);

(iii) the Group's plant and machinery with an aggregate net book value of approximately HK$245,418,000 (2004: HK$219,938,000); and

(iv) trade receivables of HK$200,000 (2004: Nil).

(b) The secured bank loans are denominated in USD.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (Cont'd)

Other interest rate information:

	Group			
	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**–**	**–**	216	–
Bank loans – secured	**71,328**	**49,795**	40,426	16,539

The carrying amounts of the Group's borrowings approximate to their fair values. The fair value of the borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

33. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles.

At 31 December 2005, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**–**	266	**–**	216
Total minimum finance lease payments	**–**	266	**–**	216
Future finance charges	**–**	(50)		
Total net finance lease payables	**–**	216		
Portion classified as current liabilities (note 32)	**–**	(216)		
Long term portion	**–**	–		

34. PROVISIONS

Group

	Long service payments	Environmental restoration	Total
	HK$'000	*HK$'000*	*HK$'000*
At beginning of year	3,637	596	4,233
Additional provision	161	–	161
Amounts utilised during the year	(177)	–	(177)
Exchange realignment	–	(7)	(7)
At 31 December 2005	3,621	589	4,210

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

The provision for environmental restoration costs has been determined by the directors based on the best estimate of the expected cost. However, in so far as the effect on the land and the environment from current limestone excavation activities becomes apparent in future periods, the estimate of the associated costs may be subject to change.

35. OTHER LONG TERM LIABILITIES

Other long term liabilities are non-interest-bearing and repayable in two years.

36. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group – 2005

	Accelerated tax depreciation *HK$'000*	**Revaluation of properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2005 (restated)	**231**	**23,205**	**23,436**
Deferred tax charged to the income statement during the year (note 10)	**–**	**22,085**	**22,085**
Gross deferred tax liabilities At 31 December 2005	**231**	**45,290**	**45,521**

Group – 2004

	Accelerated tax depreciation *HK$'000*	**Revaluation of properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2004 (restated)	1,822	20,076	21,898
Deferred tax credited to the income statement during the year (note 10)	(1,591)	–	(1,591)
Deferred tax charged to the investment property revaluation reserve during the year	–	3,129	3,129
Gross deferred tax liabilities At 31 December 2004 (restated)	231	23,205	23,436

36. DEFERRED TAX (Cont'd)

The movements in deferred tax liabilities and assets during the year are as follows: (Cont'd)

Deferred tax assets

	Losses available for offset against future taxable profit	
	2005	2004
	HK$'000	*HK$'000*
At beginning of year	**49**	270
Deferred tax charged to the income statement during the year (note 10)	**(49)**	(221)
Gross deferred tax assets	**–**	49
Deferred tax liabilities at end of year	**(45,521)**	(23,387)

The Group has tax losses arising in Hong Kong of approximately HK$470,033,677 (2004: HK$448,817,811) that are available indefinitely, and in Vietnam of approximately HK$2,380,123 (2004: HK$43,823,763), that are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint venture entities as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

37. SHARE CAPITAL

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
760,000,000 ordinary shares of HK$0.01 each	**7,600**	7,600
Issued and fully paid:		
490,705,418 ordinary shares of HK$0.01 each	**4,907**	4,907

A summary of the transactions in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	319,990,917	3,200	12,196	15,396
Warrants exercised	59,236,384	592	52,720	53,312
Shares issued	111,478,117	1,115	133,885	135,000
At 31 December 2004 and 31 December 2005	490,705,418	4,907	198,801	203,708

38. SHARE OPTION SCHEME

The Company operated a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Scheme included the Company's directors, including independent non-executive directors, and other employees of the Group. The Scheme became effective on 4 April 2001, and expired on 11 August 2004.

As at 31 December 2004, all share options under the Scheme had expired.

39. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 30 to 31 of the financial statements.

39. RESERVES (Cont'd)

(a) Group (Cont'd)

The contributed surplus of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Luks Industrial Company Limited pursuant to the Group reorganisation, and the consolidated net asset value of Luks Industrial Company Limited so acquired. Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain prescribed circumstances.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's associates and jointly-controlled entity which are incorporated in the PRC has been transferred to reserve funds which may only be utilised by the Group in accordance with relevant legislation.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2004		12,196	632,165	(11,487)	19,199	652,073
Final 2003 dividend declared		–	–	–	(19,199)	(19,199)
Exercise of warrants	37	52,720	–	–	–	52,720
Issue of shares	37	133,885	–	–	–	133,885
Underprovision of final 2003 dividend		–	(1,094)	–	–	(1,094)
Loss for the year		–	–	(13,233)	–	(13,233)
Interim dividend	12	–	(14,721)	–	–	(14,721)
Proposed final 2004 dividend	12	–	(24,535)	–	24,535	–
At 31 December 2004		198,801	591,815	(24,720)	24,535	790,431
Profit for the year		–	–	19,375	–	19,375
Final 2004 dividend declared		–	–	–	(24,535)	(24,535)
Interim dividend	12	–	(14,721)	–	–	(14,721)
Proposed final 2005 dividend	12	–	(24,535)	–	24,535	–
At 31 December 2005		198,801	552,559	(5,345)	24,535	770,550

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 39(a), over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of minority interests

	Notes	2005 *HK$'000*	2004 *HK$'000*
Fair value of net assets acquired:			
Minority interests		**62,004**	–
Exchange fluctuation reserve		**(1,161)**	–
		60,843	–
Goodwill on acquisition	17	**183**	–
Excess over the cost on acquisition of an additional interest in a subsidiary	5	**(3,755)**	–
Satisfied by cash and other long term liabilities		**57,721**	–
Satisfied by:			
Cash (including cash paid for cost directly attributable to the acquisition of approximately HK$6,571,000)		**52,591**	–
Other long term liabilities		**4,680**	–
		57,271	–

The carrying amount of the minority interests acquired approximates to its fair value.

(b) Major non-cash transactions

(i) During the year, the ordinary shares of a subsidiary of the Group were issued to the minority shareholders of the subsidiary, which were a director of the Company and a company held by the director, as settlement of the amount due to directors and a related company of approximately HK$8,000 and HK$15,397,000, respectively.

(ii) For the year ended 31 December 2004, 111,478,117 shares of HK$0.01 each were issued at a price of HK$1.211 per share as part of the consideration for the early redemption of the promissory note.

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**60,773**	39,541
In the second to fifth years, inclusive	**35,548**	20,194
After five years	**–**	311
	96,321	60,046

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging between one and two years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**942**	882
In the second to fifth years, inclusive	**2,107**	2,225
After five years	**24,702**	25,344
	27,751	28,451

42. COMMITMENTS

In addition to the operating lease arrangements detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Authorised and contracted for items of property, plant and equipment	**51,312**	3,128
Capital contributions to an associate	–	2,282
Acquisition of an additional interest in a subsidiary	–	31,200
Total capital commitments	**51,312**	36,610

43. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
	Notes	**2005**	2004
		HK$'000	*HK$'000*
Directors:			
Interest expense on directors' loans	(i)	–	44
Redemption of a promissory note	(ii)	–	200,000
Waiver of interest expense on a promissory note	(ii)	–	3,014

Notes:

(i) The interest expense was paid to the directors on the amounts due to them at the rate of 1% over the Hong Kong dollar prime rate per annum before 1 July 2004. The directors' loans are interest-free thereafter.

Details of the Group's amounts due to directors are included in note 30 to the financial statements.

(ii) A promissory note with a principal value of HK$200 million was early redeemed by the Group on 18 June 2004, and the related interest of HK$3,014,000 was waived.

43. RELATED PARTY TRANSACTIONS (Cont'd)

(b) On 12 October 2004, the Company entered into an agreement with Thua Thien Hue Construction Corporation ("TCC") pursuant to which Luks Vietnam, a wholly-owned subsidiary of the Company, acquired from TCC its entire 22.17% equity interest in Luks Cement (Vietnam) at a total cash consideration of US$4 million (approximately HK$31,200,000). Further details of the transaction were set out in the announcement of the Company dated 13 October 2004 and the circular of the Company dated 18 November 2004. The acquisition was completed on 27 January 2005.

Luks Cement (Vietnam) is engaged in the manufacture and sale of cement products for use in the construction industry in Vietnam. The main purpose of the acquisition of Luks Cement (Vietnam) was to enhance the earning base of the Group in view of the upward trend of demand for cement products in Vietnam.

(c) On 7 July 2005, Luks Vietnam entered into an agreement to acquire from Vietnam Frontier Fund (In Liquidation) its entire 12.5% equity interest in Luks Cement at a total cash consideration of US$2.5 million (approximately HK$19.5 million). Further details of the transaction were set out in the announcement of the Company dated 13 July 2005 and the circular of the Company dated 4 August 2005. The acquisition was completed on 20 September 2005. The amounts due to the related company included in other payables and accruals and other long term liabilities as at 31 December 2005 were approximately HK$9,360,000 and HK$4,680,000, respectively.

Luks Cement is an investment holding company with a 77.83% interest in Luks Cement (Vietnam). The main purpose of the acquisition was to further enhance the earning base of the Group in the manufacture and sale of cement products in view of the continuous growth of the business of Luks Cement (Vietnam).

(d) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**8,557**	7,362
Post-employment benefits	**67**	36
Total compensation paid to key management personnel	**8,624**	7,398

Further details of directors' emoluments are included in note 8 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations. However, management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

Foreign currency risk

The Group has exposed to the risk of exchange rate's fluctuation in VND for its investments in Vietnam. As VND is a restricted currency and thus hedging instruments are in lack of. In order to minimise exposure to the exchange risk, the cement plant makes use of its surplus cashflow and local banks' borrowings of VND to repay loans denominated in USD, especially the loan due to the parent company. Besides, most of the expenditures of the cement plant are in VND. For the investment properties situated in Vietnam, over 90% of the leasing contracts are denominated in USD, whereas most of its expenditures are in VND. Management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency risk exposure should the need arise.

Credit risk

The Group trades on credit terms only with recognised and creditworthy third parties and guarantee or collateral is required for most of the customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. In addition, banking facilities have been put in place for contingency purpose.

45. COMPARATIVE AMOUNTS

As further explained in note 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of the certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2006.