# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information to the annual report.

The principal activities of the Group are manufacturing and sales of steel and metal products and construction materials.

The consolidated financial statements are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars, while the functional currency of the subsidiaries registered in the PRC is Renminbi.

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

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

**Business combinations**

In the current year, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005 and for goodwill and negative goodwill as at 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

*Goodwill*

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$169,015,000 has been transferred to the Group's retained profits on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$9,141,000 with a corresponding decrease in the cost of goodwill (see note 15). The Group has discontinued amortising such goodwill from 1st January, 2005 and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for the financial impact).

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

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

**Business combinations** *(Continued)*

*Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")*

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in income statement in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of HK$18,276,000 at 1st January, 2005 with a corresponding increase to retained profits (see note 3).

**Owner-occupied leasehold interest in land**

At 31st December, 2004, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The corresponding revaluation increase previously credited to property revaluation reserve during the year ended 31st December, 2004 of HK$26,500,000 was reversed. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment (see note 3 for the financial impact).

**Investment properties**

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

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

**Financial Instruments**

In the current year, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the consolidated financial statements of the Group. HKAS 39, which is effective for annual years beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

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

*Financial assets and financial liabilities other than debt and equity securities*

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. No adjustment has been made as at 1st January, 2005.

Forward contracts financial instruments being derivatives within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Prior to 1st January, 2005, forward contracts financial instruments are not recognised in the financial statements. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the year in which they arise. The Group's derivatives are deemed as held for trading and an adjustment to the derivative financial instruments on 1st January, 2005 has been made to the Group's retained profits (see note 3 for the financial impact).

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Decrease in amortisation of goodwill | **3,080** | – |
| Decrease in release of negative goodwill | **(1,402)** | – |
| Decrease in revaluation decrease on property, plant and equipment | **–** | 1,700 |
| Write down of prepaid lease payments | **–** | (5,628) |
| Gains arising from changes in fair value of derivative financial instruments | **4,146** | – |
| Decrease in deferred tax relating to the revaluation on property, plant and equipment | **–** | (4,514) |
| Increase in profit (loss) for the year | **5,824** | (8,442) |
| Attributable to: | | |
| Equity holders of the Company | **5,475** | (8,442) |
| Minority interests | **349** | – |
| | **5,824** | (8,442) |

Analysis of increase in profit (loss) for the year by line items presented according to their function:

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Increase in other income | **4,146** | – |
| Increase in other expenses | **–** | (5,628) |
| Decrease in amortisation of goodwill | **3,080** | – |
| Decrease in release of negative goodwill | **(1,402)** | – |
| Decrease in revaluation decrease on property, plant and equipment | **–** | 1,700 |
| Decrease in income taxes | **–** | (4,514) |
| Increase in profit (loss) for the year | **5,824** | (8,442) |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

| | As at 31st December, 2004 (originally stated) | Retrospective adjustments HKAS 1 | Retrospective adjustments HKAS 17 | As at 31st December, 2004 (restated) | Adjustments on 1st January, 2005 HKAS 39 | Adjustments on 1st January, 2005 HKFRS 3 | As at 1st January, 2005 (restated) |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Balance sheet items** | | | | | | | |
| Goodwill | 23,678 | – | – | 23,678 | – | – | 23,678 |
| Negative goodwill | (18,276) | – | – | (18,276) | – | 18,276 | – |
| Property, plant and equipment | 398,178 | – | (92,803) | 305,375 | – | – | 305,375 |
| Prepaid lease payments | – | – | 55,931 | 55,931 | – | – | 55,931 |
| Derivative financial instruments | – | – | – | – | (4,142) | – | (4,142) |
| Deferred tax liabilities | (13,596) | – | 1,930 | (11,666) | – | – | (11,666) |
| Total effects on assets and liabilities | | – | (34,942) | | (4,142) | 18,276 | |
| Retained profits (deficit) | 140,216 | – | (8,442) | 131,774 | (3,762) | (150,739) | (22,727) |
| Property revaluation reserve | 65,433 | – | (26,500) | 38,933 | – | – | 38,933 |
| Goodwill reserve | (169,015) | – | – | (169,015) | – | 169,015 | – |
| Minority interests | – | 107,024 | – | 107,024 | (380) | – | 106,644 |
| Total effects on equity | | 107,024 | (34,942) | | (4,142) | 18,276 | |
| Minority interests | 107,024 | (107,024) | – | – | – | – | – |

The adoption of new HKFRSs has no impact on the equity as at 1st January, 2004.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of the potential impact of these standards, amendments and interpretations. Other than the adoption of HKAS 39 & HKFRS 4 (Amendments) "Financial guarantee contracts" which may have potential impact to the financial statements, the directors so far concluded that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group. The Group is still not in the position to reasonably estimate the impact that may arise from HKAS 39 & HKFRS 4 (Amendments).

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures[1] |
| HKAS 19 (Amendment) | Actuarial gains and losses, group plans and disclosures[2] |
| HKAS 21 (Amendment) | Net investment in a foreign operation[2] |
| HKAS 39 (Amendment) | Cash flow hedge accounting of forecast intragroup transactions[2] |
| HKAS 39 (Amendment) | The fair value option[2] |
| HKAS 39 & HKFRS 4 (Amendments) | Financial guarantee contracts[2] |
| HKFRS 6 | Exploration for and evaluation of mineral resources[2] |
| HKFRS 7 | Financial instruments: Disclosures[1] |
| HK(IFRIC) – INT 4 | Determining whether an arrangement contains a lease[2] |
| HK(IFRIC) – INT 5 | Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2] |
| HK(IFRIC) – INT 6 | Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3] |
| HK(IFRIC) – INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4] |

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies adopted are as follows:

**Basis of consolidation**

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

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

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

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

**Goodwill**

*Goodwill arising on acquisitions prior to 1st January, 2005*

As mentioned in note 2, goodwill arising on acquisitions of a subsidiary prior to 1st January, 2001 previously recognised in reserves represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition has been transferred to the retained profits at 1st January, 2005.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

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

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

**Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")**

A discount on acquisition arising on an acquisition of a subsidiary as at 1st January, 2005 represented the excess of the net fair value of an acquiree's identifiable assets and liabilities over the cost of the business combination. As mentioned in note 2, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments in associates**

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

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

**Interests in jointly controlled entities**

Joint venture arrangements which involve the establishment of a separate entity in which venturers have control over the economic activity of the entity are referred to as jointly controlled entities.

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

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

**Revenue recognition**

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

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

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

Rental income, including rentals invoiced in advance from properties or assets held under operating leases, is recognised on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investment properties**

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

**Property, plant and equipment**

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

Property, plant and equipment, other than land and buildings, assets under installation and construction in progress, are stated at cost less any subsequent accumulated depreciation and any accumulated impairment losses.

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

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the terms of the leases, or 20 to 50 years |
| Leasehold improvements | Over the shorter of the terms of the leases or 10 years |
| Furniture and fixtures | 10% – 33$^{1}/_{3}$% |
| Motor vehicles | 10% – 33$^{1}/_{3}$% |
| Plant and machinery and equipment | 5% – 50% |

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

Assets under installation and construction in progress are stated at cost less any accumulated impairment losses. No provision for depreciation is made on assets under installation and construction in progress until such time as the relevant assets are completed and ready for their intended use.

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leasing**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases.

*The Group as lessee*

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

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

**Impairment – other than goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

**Inventories**

Inventories are stated at the lower of cost and net realisable value.

Other than the cost of inventories of concrete products and printing materials which are calculated using the weighted average cost method, the cost of all other products of the Group is calculated using the first-in first-out method.

**Financial instruments**

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

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

*Receivables (including long-term receivables, trade and other receivables, pledged bank deposit, amounts due from jointly controlled entities and an associate)*

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

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits.

*Other financial liabilities (including trade and other payables, bank borrowings and amounts due to minority shareholders)*

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

*Derivative financial instruments*

Derivative financial instruments that are not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading which are measured at fair value. Changes in the fair value of such derivatives are recognised in profit or loss as they arise.

*Derecognition*

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

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign Currencies**

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme for staff in Hong Kong and retirement and pension schemes for the staff in the PRC are charged as an expense as they fall due.

**Borrowing costs**

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

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

**Taxation**

Income taxes represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

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

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

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2005, the carrying amount of goodwill is HK$13,494,000 (net of accumulated impairment loss of HK$20,794,000). Details of the recoverable amount calculation are disclosed in note 15.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

**Business segments**

For management purposes, the Group is organised into four operating divisions – manufacturing of steel and metal products, sales of steel and metal products, manufacturing of construction materials and sales of construction materials. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

**2005**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| **TURNOVER** | | | | | | | |
| External sales | 1,183,827 | 69,696 | 272,724 | 576,520 | 175,682 | – | 2,278,449 |
| Inter-segment sales | 6,422 | 196,251 | 1,781 | 56,314 | – | (260,768) | – |
| Total turnover | 1,190,249 | 265,947 | 274,505 | 632,834 | 175,682 | (260,768) | 2,278,449 |

Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **SEGMENT RESULT** | 85,562 | 5,687 | (8,918) | 25,256 | 7,111 | (35) | 114,663 |
| Unallocated other income | | | | | | | 9,249 |
| Unallocated corporate expenses | | | | | | | (21,377) |
| Impairment loss on goodwill | – | – | (884) | – | (9,300) | – | (10,184) |
| Finance costs | | | | | | | (31,066) |
| Gain (loss) on disposal of subsidiaries | 3,299 | – | – | (892) | (1) | – | 2,406 |
| Share of results of jointly controlled entities | – | – | – | – | 60 | – | 60 |
| Share of results of associates | 1,218 | – | – | – | – | – | 1,218 |
| Profit before taxation | | | | | | | 64,969 |
| Income taxes | | | | | | | (8,351) |
| Profit for the year | | | | | | | 56,618 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**2005** *(Continued)*

**BALANCE SHEET**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Segment assets | 668,149 | 85,301 | 245,235 | 129,539 | 95,580 | (26,195) | 1,197,609 |
| Interests in jointly controlled entities | – | – | – | – | 1,359 | – | 1,359 |
| Interests in associates | 5,253 | – | – | – | – | – | 5,253 |
| Amounts due from jointly controlled entities | – | 1,500 | – | – | 5,414 | – | 6,914 |
| Amount due from an associate | 682 | – | – | – | – | – | 682 |
| Unallocated corporate assets | | | | | | | 44,061 |
| Consolidated total assets | | | | | | | 1,255,878 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 132,289 | 6,280 | 49,864 | 21,455 | 10,040 | (26,326) | 193,602 |
| Unallocated corporate liabilities | | | | | | | 533,658 |
| Consolidated total liabilities | | | | | | | 727,260 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**2005** *(Continued)*

**OTHER INFORMATION**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Capital expenditures | 8,283 | 1,436 | 2,482 | 31 | 5,108 | 105 | 17,445 |
| Depreciation | 13,935 | 1,174 | 19,591 | 134 | 1,356 | 568 | 36,758 |
| Amortisation of prepaid lease payments | 520 | – | 670 | – | – | 38 | 1,228 |
| (Write back of) allowance for bad and doubtful debts | (844) | 559 | (2,438) | 2,158 | 465 | – | (100) |
| (Gain) loss on disposal of property, plant and equipment and prepaid lease payments | (38) | 11 | 4,850 | 50 | (41) | (254) | 4,578 |
| Gain on disposal of investment properties | – | – | – | – | – | (199) | (199) |
| Write down of inventories | 43 | – | 250 | 200 | 500 | – | 993 |
| Net exchange loss (gain) | 1,471 | (467) | 3 | 424 | (32) | 149 | 1,548 |
| Decrease in fair value on investment properties | – | – | – | – | – | 970 | 970 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**2004 (restated)**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| **TURNOVER** | | | | | | | |
| External sales | 1,336,709 | 74,956 | 286,241 | 684,866 | 171,775 | – | 2,554,547 |
| Inter-segment sales | 2,844 | 311,121 | 1,477 | 82,821 | – | (398,263) | – |
| Total turnover | 1,339,553 | 386,077 | 287,718 | 767,687 | 171,775 | (398,263) | 2,554,547 |

Inter-segment sales are charged at cost or cost plus a percentage profit mark-up.

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| **SEGMENT RESULT** | 118,203 | 262 | (39,851) | (51,811) | 6,705 | (86) | 33,422 |
| Unallocated other income | | | | | | | 10,055 |
| Unallocated corporate expenses | | | | | | | (28,814) |
| Amortisation of goodwill | – | – | (365) | (25) | (4,083) | – | (4,473) |
| Release of negative goodwill | – | – | 1,005 | – | – | – | 1,005 |
| Impairment loss on goodwill | – | – | (518) | – | (10,092) | – | (10,610) |
| Finance costs | | | | | | | (27,079) |
| Gain (loss) on disposal of subsidiaries | 301 | – | (548) | – | (66) | – | (313) |
| Share of results of jointly controlled entities | – | – | – | – | 190 | – | 190 |
| Loss before taxation | | | | | | | (26,617) |
| Income taxes | | | | | | | (3,708) |
| Loss for the year | | | | | | | (30,325) |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**2004 (restated)** *(Continued)*

**BALANCE SHEET**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Segment assets | 649,473 | 73,791 | 273,589 | 160,825 | 107,422 | (26,656) | 1,238,444 |
| Interests in jointly controlled entities | – | – | – | – | 1,299 | – | 1,299 |
| Amounts due from jointly controlled entities | – | 1,500 | – | – | 5,322 | – | 6,822 |
| Unallocated corporate assets | | | | | | | 74,935 |
| Consolidated total assets | | | | | | | 1,321,500 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 113,313 | 5,343 | 63,187 | 30,336 | 10,716 | (26,747) | 196,148 |
| Unallocated corporate liabilities | | | | | | | 641,632 |
| Consolidated total liabilities | | | | | | | 837,780 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Business segments** *(Continued)*

**2004 (restated)** *(Continued)*

**OTHER INFORMATION**

| | Manufacturing of steel and metal products HK$'000 | Sales of steel and metal products HK$'000 | Manufacturing of construction materials HK$'000 | Sales of construction materials HK$'000 | Other operations HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Capital expenditures | 15,113 | 4,016 | 4,285 | 23 | 4,878 | 1,097 | 29,412 |
| Addition to goodwill | – | – | 1,331 | – | – | – | 1,331 |
| Addition to negative goodwill | – | – | (5,456) | – | – | – | (5,456) |
| Depreciation | 15,126 | 989 | 18,400 | 292 | 911 | 754 | 36,472 |
| Amortisation of prepaid lease payments | 560 | – | 706 | – | – | 110 | 1,376 |
| Amortisation of goodwill | – | – | 365 | 25 | 4,083 | – | 4,473 |
| Write down of inventories | 510 | – | – | – | 500 | – | 1,010 |
| Release of negative goodwill | – | – | (1,005) | – | – | – | (1,005) |
| Allowance for bad and doubtful debts | 3,078 | 2,106 | 4,594 | 818 | 1,226 | 244 | 12,066 |
| Loss on disposal of property, plant and equipment | 326 | 26 | 365 | 2 | 20 | – | 739 |
| Net exchange loss (gain) | 2,731 | 676 | (439) | 1,671 | (1) | (55) | 4,583 |
| Decrease in fair value on investment properties | – | – | – | – | – | 5,930 | 5,930 |
| Revaluation decrease on property, plant and equipment | – | – | 11,733 | – | – | 1,516 | 13,249 |
| Impairment loss on property, plant and equipment | – | – | 2,638 | – | – | – | 2,638 |

**Geographical segments**

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

| | Revenue by geographical market | |
|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 |
| Hong Kong | **1,548,371** | 1,594,012 |
| Other regions in the PRC | **646,653** | 831,774 |
| Macau | **31,679** | 39,890 |
| Australia | **36,835** | 32,101 |
| Others | **14,911** | 56,770 |
| | **2,278,449** | 2,554,547 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

**Geographical segments** *(Continued)*

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

| | Carrying amount of segment assets | | Additions to investment properties and property, plant and equipment and prepaid lease payments | | Addition to goodwill | |
|---|---|---|---|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 (restated) | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| Hong Kong | **658,976** | 742,626 | **3,632** | 4,005 | **–** | 1,331 |
| Other regions in the PRC | **591,751** | 571,851 | **13,792** | 24,334 | **–** | – |
| Australia | **5,151** | – | **21** | 1,063 | **–** | – |
| Others | **–** | 7,023 | **–** | 10 | **–** | – |
| | **1,255,878** | 1,321,500 | **17,445** | 29,412 | **–** | 1,331 |

## 7. OTHER INCOME

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Included in other income are: | | |
| Gross rental income from investment properties | **782** | 1,120 |
| *Less*: direct operating expenses from investment properties that generated rental income during the year | **(132)** | (171) |
| Net rental income from investment properties | **650** | 949 |
| Rental income from property, plant and equipment | **1,405** | 2,525 |
| | **2,055** | 3,474 |

## 8. FINANCE COSTS

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **30,457** | 25,789 |
| Finance leases | **605** | 547 |
| Other borrowings wholly repayable within five years | **4** | 743 |
| | **31,066** | 27,079 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 9. INCOME TAXES

| | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|
| The charge comprises: | | |
| Current year | | |
| Hong Kong | **3,612** | 3,778 |
| Outside Hong Kong | **3,143** | 2,434 |
| | **6,755** | 6,212 |
| (Over)underprovision in prior years | | |
| Hong Kong | **(156)** | 512 |
| Outside Hong Kong | **1,717** | – |
| | **1,561** | 512 |
| | **8,316** | 6,724 |
| Deferred tax *(note 36)* | | |
| Current year | **35** | (3,016) |
| | **8,351** | 3,708 |

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

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

Pursuant to the relevant laws and regulations in the PRC, certain of the Group's subsidiaries operating in the PRC are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 9. INCOME TAXES *(Continued)*

The taxation for the year can be reconciled from taxation based on profit (loss) per the income statement as follows:

| | Hong Kong | | PRC and others | | Total | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 (restated) | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 (restated) |
| Profit (loss) before taxation | **29,194** | (64,412) | **35,775** | 37,795 | **64,969** | (26,617) |
| Domestic income tax rate | **17.5%** | 17.5% | **33%** | 33% | | |
| Tax at the domestic income tax rate | **5,109** | (11,272) | **11,806** | 12,472 | **16,915** | 1,200 |
| Tax effect of expenses not deductible for tax purpose | **3,217** | 4,842 | **181** | 454 | **3,398** | 5,296 |
| Tax effect of income not taxable for tax purpose | **(612)** | (720) | **(30)** | (22) | **(642)** | (742) |
| Tax effect of offshore manufacturing profits on 50:50 apportionment basis | **(4,567)** | (7,878) | **–** | – | **(4,567)** | (7,878) |
| Tax effect of tax losses not recognised | **4,766** | 16,721 | **1,586** | 420 | **6,352** | 17,141 |
| Tax effect of utilisation of tax losses not recognised | **(4,956)** | (621) | **(546)** | (482) | **(5,502)** | (1,103) |
| Tax effect of other deductible temporary difference not recognised | **–** | (754) | **(2,375)** | – | **(2,375)** | (754) |
| Effect of tax exemption granted to PRC subsidiaries | **–** | – | **(7,349)** | (10,082) | **(7,349)** | (10,082) |
| Others | **690** | 604 | **(130)** | (486) | **560** | 118 |
| (Over)underprovision in prior years | **(156)** | 512 | **1,717** | – | **1,561** | 512 |
| Income taxes for the year | **3,491** | 1,434 | **4,860** | 2,274 | **8,351** | 3,708 |

Details of deferred taxation are set out in note 36.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 10. PROFIT (LOSS) FOR THE YEAR

| | 2005 HK$'000 | 2004 HK$'000 (restated) |
|---|---|---|
| Profit (loss) for the year has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments | **1,228** | 1,376 |
| Auditors' remuneration | | |
| Current year | **2,746** | 2,477 |
| Underprovision in prior years | **409** | 359 |
| Depreciation | **36,758** | 36,472 |
| Change in fair value of derivative financial instruments | **(4,146)** | – |
| Gain on disposal of derivative financial instruments | **(1,194)** | – |
| Minimum lease payments for operating leases in respect of | | |
| Land and buildings | **13,421** | 16,851 |
| Plant and machinery | **1,790** | 2,380 |
| | **15,211** | 19,231 |
| Net exchange loss | **1,548** | 4,583 |
| Staff costs including directors' emoluments and contributions to retirement benefits scheme | **87,294** | 104,682 |
| (Write back of) allowance for bad and doubtful debts | **(100)** | 12,066 |
| Cost of inventories recognised as expenses including write down of inventories of HK$993,000 (2004: HK$1,010,000) | **2,004,502** | 2,321,589 |
| (Gain) loss on disposal of | | |
| Investment properties | **(199)** | – |
| Property, plant and equipment and prepaid lease payments | **4,578** | 739 |
| Impairment loss on property, plant and equipment | **–** | 2,638 |
| Share of income tax attributable to an associate | **92** | – |

Minimum lease payments for operating leases in respect of a director's accommodation amounting to HK$1,348,000 (2004: HK$1,744,000) are included under staff costs.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors are as follows:

| | Pang Tak Chung HK$'000 | Ho Wai Yu, Sammy HK$'000 | John Cyril Fletcher HK$'000 | Robert Keith Davis HK$'000 | Yu Kwok Kan, Stephen HK$'000 | Chan Yat Yan HK$'000 | Lo Yip Tong HK$'000 | **2005 Total HK$'000** |
|---|---|---|---|---|---|---|---|---|
| Fees | – | – | – | 70 | 90 | 90 | 90 | **340** |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | 3,490 | 1,972 | 1,644 | – | – | – | – | **7,106** |
| Contributions to retirement benefits schemes | 145 | 118 | 55 | – | – | – | – | **318** |
| | 3,635 | 2,090 | 1,699 | 70 | 90 | 90 | 90 | **7,764** |

| | Pang Tak Chung HK$'000 | Ho Wai Yu, Sammy HK$'000 | John Cyril Fletcher HK$'000 | Robert Keith Davis HK$'000 | Yu Kwok Kan, Stephen HK$'000 | Chan Yat Yan HK$'000 | Lo Yip Tong HK$'000 | Li Chiu Wah, Joseph HK$'000 | 2004 Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Fees | – | – | – | 94 | 87 | 67 | 67 | 90 | 405 |
| Other emoluments | | | | | | | | | |
| Salaries and other benefits | 3,548 | 1,901 | 1,444 | 431 | – | – | – | – | 7,324 |
| Contributions to retirement benefits schemes | 138 | 110 | 55 | 23 | – | – | – | – | 326 |
| | 3,686 | 2,011 | 1,499 | 548 | 87 | 67 | 67 | 90 | 8,055 |

No director waived any emoluments for the two years ended 31st December, 2005.

## 12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included three directors (2004: two directors), details of whose emoluments are set out in note 11 above. The emoluments of the remaining two individuals (2004: three individuals) are as follows:

| | **2005 HK$'000** | 2004 HK$'000 |
|---|---|---|
| Salaries and other benefits | **4,299** | 6,735 |
| Contributions to retirement benefits scheme | **24** | 36 |
| | **4,323** | 6,771 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 12. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

| | 2005 Number of employees | 2004 Number of employees |
|---|---|---|
| HK$1,500,001 – HK$2,000,000 | **1** | 1 |
| HK$2,000,001 – HK$2,500,000 | **–** | 1 |
| HK$2,500,001 – HK$3,000,000 | **1** | 1 |
| | **2** | 3 |

## 13. DIVIDEND

The directors recommend the payment of a final dividend of 2 HK cents per share for the year ended 31st December, 2005 and is subject to approval by shareholders in the annual general meeting.

## 14. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the profit (loss) attributable to the equity holders of the Company for the year and on the 567,362,500 (2004: 567,362,500) ordinary shares in issue.

*Impact of changes in accounting policies*

The following table summarises the impact on earnings (loss) per share as a result of adoption of new HKFRSs as described in details in note 2:

| | 2005 HK cents | 2004 HK cents |
|---|---|---|
| Figures before changes in accounting policies | **4.74** | (9.21) |
| Adjustments arising from changes in accounting policies (see note 3) | **0.97** | (1.49) |
| Figures after changes in accounting policies | **5.71** | (10.70) |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 15. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1st January, 2004 | 44,207 |
| Arising on acquisition of further interests in subsidiaries | 1,331 |
| Released on disposal of subsidiaries | (2,109) |
| At 31st December, 2004 | 43,429 |
| Elimination of accumulated amortisation upon adoption of HKFRS 3 | (9,141) |
| At 1st January, 2005 and at 31st December, 2005 | 34,288 |
| AMORTISATION | |
| At 1st January, 2004 | 5,187 |
| Amortised for the year | 4,473 |
| Released on disposal of subsidiaries | (519) |
| At 31st December, 2004 | 9,141 |
| Elimination of accumulated amortisation upon adoption of HKFRS 3 | (9,141) |
| At 1st January, 2005 and at 31st December, 2005 | – |
| IMPAIRMENT | |
| Impairment loss recognised in the year ended 31st December, 2004 | 10,610 |
| Impairment loss recognised in the year ended 31st December, 2005 | 10,184 |
| As 31st December, 2005 | 20,794 |
| CARRYING AMOUNT | |
| At 31st December, 2005 | 13,494 |
| At 31st December, 2004 | 23,678 |

Until 31st December, 2004, goodwill is amortised on a straight-line basis over the estimated useful life of 10 years.

For the purposes of impairment testing, goodwill is allocated to two individual cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to a subsidiary of manufacturing of construction materials segment (Unit A) and certain subsidiaries in other operations segment (Unit B) of HK$3,200,000 and HK$31,088,000 respectively.

During the year ended 31st December, 2005, the Group recognised an impairment loss of HK$10,184,000 (2004: HK$10,610,000).

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 15. GOODWILL *(Continued)*

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

**Unit A**

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 9%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

**Unit B**

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 9%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

## 16. NEGATIVE GOODWILL

| | HK$'000 |
|---|---|
| GROSS AMOUNTS | |
| At 1st January, 2004 | 15,506 |
| Arising on acquisition of further interests in subsidiaries | 5,456 |
| At 31st December, 2004 | 20,962 |
| RELEASED TO INCOME | |
| At 1st January, 2004 | 1,681 |
| Released for the year | 1,005 |
| At 31st December, 2004 | 2,686 |
| At 31st December, 2004 | 18,276 |
| Dereognised upon adoption of HKFRS 3 | (18,276) |
| At 31st December, 2005 | – |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 17. INVESTMENT PROPERTIES

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At beginning of the year | **38,630** | 44,560 |
| Disposals | **(11,260)** | – |
| Decrease in fair value | **(970)** | (5,930) |
| At end of the year | **26,400** | 38,630 |

The Group's investment properties comprise:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties held under medium term leases: | | |
| In Hong Kong | **11,300** | 20,260 |
| Other regions in the PRC | **2,800** | 3,070 |
| Properties held under long leases in Hong Kong | **12,300** | 15,300 |
| | **26,400** | 38,630 |

The fair value of the Group's investment properties at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties of the Group are rented out under operating leases.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Plant and machinery and equipment HK$'000 | Assets under installation HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| COST OR VALUATION | | | | | | | | |
| At 1st January, 2004 | 312,549 | 23,174 | 15,778 | 46,924 | 295,520 | – | 17,765 | 711,710 |
| Effect on change in an accounting policy | (107,277) | – | – | – | – | – | – | (107,277) |
| As restated | 205,272 | 23,174 | 15,778 | 46,924 | 295,520 | – | 17,765 | 604,433 |
| Exchange differences | 96 | 3 | 19 | 167 | 533 | – | 2 | 820 |
| Additions | 1,331 | 155 | 964 | 6,926 | 10,446 | 4,373 | 5,217 | 29,412 |
| Disposals | (510) | – | (265) | (3,526) | (3,913) | – | (9) | (8,223) |
| On disposal of subsidiaries | (15,708) | – | (582) | (1,182) | (18,085) | – | (16,060) | (51,617) |
| Eliminated on revaluation | (86,522) | – | – | – | – | – | – | (86,522) |
| Reclassification | – | – | – | – | 946 | – | (946) | – |
| At 31st December, 2004 | 103,959 | 23,332 | 15,914 | 49,309 | 285,447 | 4,373 | 5,969 | 488,303 |
| Exchange differences | 226 | 12 | 44 | 580 | 1,789 | – | 63 | 2,714 |
| Additions | 419 | 2,117 | 1,156 | 3,319 | 7,651 | 1,083 | 1,700 | 17,445 |
| Disposals | (10,562) | (2,588) | (601) | (1,938) | (6,213) | – | (1,703) | (23,605) |
| On disposal of subsidiaries | – | – | (595) | (861) | (1,973) | (65) | – | (3,494) |
| Reclassification | – | – | 4 | (61) | 7,309 | (5,379) | (1,873) | – |
| **At 31st December, 2005** | **94,042** | **22,873** | **15,922** | **50,348** | **294,010** | **12** | **4,156** | **481,363** |
| Comprising: | | | | | | | | |
| At cost | 419 | 22,873 | 15,922 | 50,348 | 294,010 | 12 | 4,156 | 387,740 |
| At valuation – 2004 | 93,623 | – | – | – | – | – | – | 93,623 |
| | 94,042 | 22,873 | 15,922 | 50,348 | 294,010 | 12 | 4,156 | 481,363 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1st January, 2004 | 136,194 | 16,357 | 12,106 | 23,173 | 107,037 | – | – | 294,867 |
| Effect on change in an accounting policy | (44,422) | – | – | – | – | – | – | (44,422) |
| As restated | 91,772 | 16,357 | 12,106 | 23,173 | 107,037 | – | – | 250,445 |
| Exchange differences | 33 | 1 | 11 | 75 | 139 | – | – | 259 |
| Provided for the year | 6,290 | 1,227 | 1,600 | 5,024 | 22,331 | – | – | 36,472 |
| Eliminated on disposals | (61) | – | (241) | (1,673) | (2,905) | – | – | (4,880) |
| On disposal of subsidiaries | (859) | – | (259) | (216) | (3,497) | – | – | (4,831) |
| Impairment loss | – | – | – | – | – | – | 2,638 | 2,638 |
| Eliminated on revaluation | (97,175) | – | – | – | – | – | – | (97,175) |
| At 31st December, 2004 | – | 17,585 | 13,217 | 26,383 | 123,105 | – | 2,638 | 182,928 |
| Exchange differences | – | 2 | 29 | 297 | 621 | – | – | 949 |
| Provided for the year | 7,433 | 1,252 | 879 | 5,198 | 21,996 | – | – | 36,758 |
| Eliminated on disposals | (109) | (1,238) | (490) | (1,758) | (1,742) | – | – | (5,337) |
| On disposal of subsidiaries | – | (13) | (247) | (464) | (346) | – | – | (1,070) |
| Reclassification | – | – | 4 | (6) | 2 | – | – | – |
| **At 31st December, 2005** | **7,324** | **17,588** | **13,392** | **29,650** | **143,636** | **–** | **2,638** | **214,228** |
| CARRYING VALUES | | | | | | | | |
| **At 31st December, 2005** | **86,718** | **5,285** | **2,530** | **20,698** | **150,374** | **12** | **1,518** | **267,135** |
| At 31st December, 2004 (as restated) | 103,959 | 5,747 | 2,697 | 22,926 | 162,342 | 4,373 | 3,331 | 305,375 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying values of leasehold land and buildings and construction in progress shown above comprises:

| | **2005 HK$'000** | 2004 HK$'000 (restated) |
|---|---|---|
| **Leasehold land and buildings:** | | |
| Situated in Hong Kong held under medium term leases | **46,397** | 62,740 |
| **Buildings:** | | |
| Situated in Hong Kong held under short term leases | **2,459** | 3,171 |
| Situated in other regions in the PRC held under medium term leases | **37,862** | 38,048 |
| | **86,718** | 103,959 |
| **Construction in progress:** | | |
| Situated in other regions in the PRC held under medium term leases | **1,518** | 3,331 |
| | **88,236** | 107,290 |

Property, plant and equipment of the Group includes assets carried at cost of HK$4,565,000 (2004: HK$8,288,000) with accumulated depreciation of HK$1,826,000 (2004: HK$2,041,000) held for used under operating leases. Depreciation charged in respect of these assets during the year amounted to HK$228,000 (2004: HK$414,000).

The net book values of motor vehicles, plant and machinery and equipment of the Group include an amount of HK$823,000 (2004: HK$1,465,000) and HK$18,558,000 (2004: HK$28,065,000) respectively in respect of assets held under finance leases.

The net book value of motor vehicles of the Company include an amount of HK$564,000 (2004: HK$639,000) in respect of assets held under finance leases.

Land and buildings were revalued at 31st December, 2004 by LCH (Asia-Pacific) Surveyors Limited, Chartered Surveyors, an independent firm of professional valuer, on an open market existing use basis. Messrs. LCH (Asia-Pacific) Surveyors Limited are not connected to the Group.

At 31st December, 2005, if land and buildings of the Group had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and accumulated impairment losses of approximately HK$77,067,000 (2004: HK$93,306,000).

During the year ended 31st December, 2004, the directors considered that no future benefit would be derived from the construction in progress of HK$2,638,000, accordingly, impairment loss was fully made.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 19. PREPAID LEASE PAYMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Leasehold land in Hong Kong under medium-term lease | **33,805** | 39,443 |
| Land use right in the PRC under medium-term lease | **16,374** | 16,488 |
| | **50,179** | 55,931 |
| Analysed for reporting purposes as: | | |
| Current asset | **1,192** | 1,375 |
| Non-current asset | **48,987** | 54,556 |
| | **50,179** | 55,931 |

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Cost of investments (unlisted) | **1,257** | 1,257 |
| Share of post-acquisition profits | **102** | 42 |
| | **1,359** | 1,299 |

Particulars of the jointly controlled entities as at 31st December, 2005 are as follows:

| Company | Form of business structure | Place of incorporation/ registration/ operation | Class of shares | Percentage of ownership attributable to the Group | Principal activities |
|---|---|---|---|---|---|
| Kunshan Rosathal Printing Ink Limited | Equity joint venture | PRC | Registered capital | 33.25% | Manufacturing and sales of printing ink |
| Hi-Net Business Limited | Incorporated | British Virgin Island/ Hong Kong | Ordinary shares | 50% | Investment holding |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Non-current assets | **5,464** | 5,489 |
| Current assets | **11,088** | 10,775 |
| Current liabilities | **(10,429)** | (10,429) |
| | **6,123** | 5,835 |
| Income | **9,105** | 12,270 |
| Expenses | **(8,926)** | (11,711) |
| Profit for the year | **179** | 559 |

## 21. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Gross amount | **6,914** | 6,822 |
| Less: amount due after one year | **–** | (1,500) |
| Amount repayable on demand shown under current assets | **6,914** | 5,322 |

The amounts are unsecured and interest free (2004: included in above was an amount of HK$2,949,000 which bears interest at 5% per annum). The directors consider that the fair values of the amounts as at 31st December, 2005 approximate to the corresponding carrying amounts.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 22. INTERESTS IN ASSOCIATES

| | **2005** **HK$'000** | 2004 HK$'000 |
|---|---|---|
| Cost of investments (unlisted) | **5,449** | – |
| Share of net post-acquisition profits | **1,218** | – |
| *Less*: Unrealised gain on disposal of a subsidiary *(note 37)* | **(1,414)** | – |
| | **5,253** | – |

Particulars of the associates as at 31st December, 2005 are as follows:

| **Name** | **Form of business structure** | **Place of incorporation/ registration/ operation** | **Proportion of nominal value of issued capital/ registered capital held by the Group** | **Nature of business** |
|---|---|---|---|---|
| China Rope Holdings Limited | Incorporated | Hong Kong | 30% | Investment holding |
| Bridon Tianjin Rope Ltd. (formerly known as Tianjin Golik – No. 1 Steel Wire Rope Co., Limited) | Equity joint venture | PRC | 22.65% | Manufacturing and sale of steel wire rope for elevators |

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

| | **2005** **HK$'000** |
|---|---|
| Non-current assets | **4,308** |
| Current assets | **40,263** |
| Current liabilities | **(20,913)** |
| | **23,658** |
| Income | **61,413** |
| Expenses | **(56,622)** |
| Income taxes | **(404)** |
| Profit for the year | **4,387** |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 23. LONG-TERM RECEIVABLES

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Building mortgage loans *(note a)* | **340** | 425 |
| Other loans *(note b)* | **6,541** | 11,878 |
| Trade receivables *(note c)* | **223** | 718 |
| | **7,104** | 13,021 |
| *Less*: amounts due within one year shown under trade and other receivables | **(6,281)** | (12,217) |
| Amounts due after one year | **823** | 804 |

(a) The building mortgage loans bear interest at 3% to 4% above the Hong Kong Prime Rate per annum and are repayable by monthly instalments up to year 2009. The effective interest rate for the year is 9% (2004: 8%).

(b) Other loans are unsecured, bear interest at 4% to 6% (2004: 4% to 6%) per annum. Included in the loans is HK$6,192,000 which is repayable within one year and the remaining HK$349,000 is repayable by November 2007.

(c) The amounts are aged over 120 days and are repayable by yearly instalments up to 2007.

The directors consider that the fair values of long-term receivables as at 31st December, 2005 approximate to the corresponding carrying amounts.

## 24. INVENTORIES

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Raw materials | **168,312** | 169,715 |
| Work in progress | **8,468** | 12,026 |
| Finished goods | **131,286** | 120,409 |
| Supplies | **1,302** | 2,238 |
| | **309,368** | 304,388 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 25. TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from 0 to 180 days to its customers.

Included in trade and other receivables are trade receivables with an aged analysis as follows:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **135,507** | 165,479 |
| 31 – 60 days | **106,692** | 116,324 |
| 61 – 90 days | **73,462** | 60,336 |
| 91 – 120 days | **28,597** | 21,772 |
| More than 120 days | **22,584** | 38,406 |
| | **366,842** | 402,317 |

The directors consider that the fair values of trade and other receivables as at 31st December, 2005 approximate to the corresponding carrying amounts.

## 26. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and is repayable on demand. The directors consider that the fair value of the amount as at 31st December, 2005 approximates to the corresponding carrying amount.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

In the current year, the Group has used currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward option contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in United States dollar.

At 31st December, 2005, the total notional amount of outstanding foreign exchange forward options contracts to which the Group is committed ranging from US$24,500,000 to US$49,000,000.

These arrangements are designed to address certain exchange exposures for 2006.

At 31st December, 2005, the fair value of the Group's foreign currency forward option contracts is estimated to be a financial asset of approximately HK$4,000 (1.1.2005: a financial liability of HK$4,142,000). These amounts are based on market prices quoted by banks at the balance sheet date. The change in fair value of the foreign currency forward option contracts amounting to HK$4,146,000 has been realised in income statement.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 28. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank overdrafts, bank loans repayable within one year and import loan facilities. Accordingly, the pledged bank deposits are classified as current assets. The deposits carry fixed interest rate ranging from 1.75% to 2.5%.

Pledged bank deposits of the Group of approximately HK$23,604,000 (2004: HK$12,735,000) were utilised for repayment of bank borrowings subsequent to the balance sheet date.

The directors consider that the fair value of pledged bank deposits as at 31st December, 2005 approximates to the corresponding carrying amount.

## 29. BANK BALANCES AND CASH

The directors consider that the fair value of bank balances and cash as at 31st December, 2005 approximates to the corresponding carrying amount. The amount included deposits with an original maturity of three months or less which carry fixed interest rate of 4.65%.

## 30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **60,573** | 72,268 |
| 31 – 60 days | **17,405** | 12,921 |
| 61 – 90 days | **8,413** | 4,509 |
| 91 – 120 days | **7,435** | 1,274 |
| More than 120 days | **29,358** | 16,113 |
| | **123,184** | 107,085 |

The directors consider the fair values of trade and other payables as at 31st December, 2005 approximate to the corresponding carrying amounts.

## 31. AMOUNTS DUE TO MINORITY SHAREHOLDERS

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

The directors consider the fair values of the amounts as at 31st December, 2005 approximate to the corresponding carrying amounts.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 32. BANK BORROWINGS

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Bank overdrafts | **2,905** | 6,618 |
| Bank loans | **140,109** | 210,942 |
| Mortgage loans | **4,911** | 19,075 |
| Trust receipt loans | **364,677** | 380,106 |
| | **512,602** | 616,741 |
| Analysed as: | | |
| Secured | **51,593** | 147,958 |
| Unsecured | **461,009** | 468,783 |
| | **512,602** | 616,741 |
| The bank borrowings are repayable as follows: | | |
| On demand or within one year | **503,834** | 568,506 |
| More than one year, but not exceeding two years | **7,378** | 36,175 |
| More than two years, but not exceeding three years | **1,390** | 7,415 |
| More than three years, but not exceeding four years | **–** | 2,841 |
| More than four years, but not exceeding five years | **–** | 784 |
| More than five years | **–** | 1,020 |
| | **512,602** | 616,741 |
| *Less*: amounts due within one year shown under current liabilities | **(503,834)** | (568,506) |
| Amounts due after one year | **8,768** | 48,235 |

The average effective borrowing rates are ranging from 3.25% to 8.5% (2004: 2.75% to 7.5%) per annum.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 32. BANK BORROWINGS *(Continued)*

The carrying amounts of the Group's borrowings are analysed as follows:

| Denominated in | Interest rate | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| Hong Kong dollars | Hong Kong Interbank Offered Rate plus 1.35% to 5% | **200,348** | 207,654 |
| United States dollars (note) | London Interbank Offered Rate plus 1% to 2.25% | **235,987** | 294,106 |
| Reminbi | 10% mark up from People's Bank of China lending rate | **75,207** | 105,637 |
| Others (note) | Prime Rate plus 0.5% | **1,060** | 9,344 |
| | | **512,602** | 616,741 |

*Note:*

These borrowings are denominated in currencies other the functional currencies of the relevant group entities.

The directors consider that the current interest rates represent prevailing market interest rates and, therefore, the fair values of bank borrowings as at 31st December, 2005 estimated by discounting their future cash flows at the prevailing market borrowing rates appropriate the corresponding carrying amounts.

## 33. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2005 HK$'000** | 2004 HK$'000 | **2005 HK$'000** | 2004 HK$'000 |
| Within one year | **5,446** | 5,974 | **4,942** | 5,553 |
| In the second to fifth year inclusive | **5,026** | 5,081 | **4,612** | 4,927 |
| | **10,472** | 11,055 | | |
| *Less*: future finance charges | **(918)** | (575) | | |
| Present value of lease obligations | **9,554** | 10,480 | **9,554** | 10,480 |
| *Less*: amounts due within one year shown under current liabilities | | | **(4,942)** | (5,553) |
| Amounts due after one year | | | **4,612** | 4,927 |

It is the Group's policy to lease certain of its motor vehicles and plant and machinery and equipment under finance leases. The lease terms are ranging from 1 to 5 years. For the year ended 31st December, 2005, the average effective borrowing rates an ranging from 2.75% to 7% (2004: 2.35% to 12.5%) per annum. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

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

The directors consider that the current interest rates represent prevailing market interest rates and, therefore, the fair values of obligations under finance leases as at 31st December, 2005 estimated by discounting their future cash flows at the prevailing market borrowing rates appropriate the corresponding carrying amounts.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 34. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At 1st January, 2004, 31st December, 2004 and 2005 | 1,800,000,000 | 180,000 |
| Issued and fully paid: | | |
| At 1st January, 2004, 31st December, 2004 and 2005 | 567,362,500 | 56,736 |

## 35. SHARE OPTION SCHEMES

The share option scheme of the Company was effective on 27th May, 2004 (the "Scheme").

**Summary of the Scheme**

a. The primary purpose of the Scheme is to provide incentives or rewards to Participants (see below defined) thereunder for their contribution to the Group and any entity in which the Group holds any equity interest ("Invested Entity") and/or to enable the Group and an Invested Entity to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any Invested Entity.

b. The directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants ("Participants"), to take up options to subscribe for shares of HK$0.10 each in the capital of the Company ("Shares").

   (i) any eligible employee;

   (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

   (iii) any supplier of goods or services to any member of the Group or any Invested Entity;

   (iv) any customer of the Group or any Invested Entity;

   (v) any person or entity acting in their capacities as advisers or consultants that provides research, development or other technological support to the Group or any Invested Entity; and

   (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity from time to time determined by the directors having contributed or may contribute to the development and growth of the Group and any Invested Entity.

c. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Company) to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Scheme (i.e. 27th May, 2004). The Company can grant options to subscribe up to 56,736,250 Shares which is the 10% of the total issued share capital of the Company as at 31st December, 2005. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 35. SHARE OPTION SCHEMES *(Continued)*

**Summary of the Scheme** *(Continued)*

d. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Scheme and any other share option scheme of the Company (including both exercised or outstanding options) to each Participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

e. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined an notified by the directors to each grantee, which period may commence on the date on which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

f. An offer of grant of an option may be accepted by a Participant within 28 days from the date of the offer of grant of the option. A consideration of HK$1 is payable on acceptance of the offer of grant of an option.

g. The subscription price per Shares under the Scheme shall be a price determined by the directors, but shall not be lower than the highest of:

   (i) the closing price of the Share as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a trading day;

   (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and

   (iii) the nominal value of a Share.

h. The Scheme has a life of 10 years and will expire on 26th May, 2014.

No share option was granted since the adoption of the Scheme.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 36. DEFERRED TAXATION

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

| | Accelerated accounting depreciation HK$'000 | Revaluation on properties HK$'000 | Accelerated tax depreciation HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st January, 2004 | – | – | (23,963) | 13,155 | (10,808) |
| Underprovision in prior year | – | – | (198) | 198 | – |
| On disposal of subsidiaries | – | – | 462 | – | 462 |
| Charge to equity for the year (as restated) | – | (4,336) | – | – | (4,336) |
| Credit (charge) to income for the year (as restated) | 2,408 | – | 1,681 | (1,073) | 3,016 |
| At 31st December, 2004 (as restated) | 2,408 | (4,336) | (22,018) | 12,280 | (11,666) |
| Exchange differences | – | (12) | – | – | (12) |
| On disposal of subsidiaries | – | – | 30 | (30) | – |
| Credit (charge) to income for the year | 258 | – | 1,505 | (1,798) | (35) |
| **At 31st December, 2005** | **2,666** | **(4,348)** | **(20,483)** | **10,452** | **(11,713)** |

For the purposes of balance sheet presentation, deferred tax assets and liabilities have been offset and shown under non-current liabilities.

At the balance sheet date, the Group has unused tax losses of HK$722,248,000 (2004: HK$730,229,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$59,736,000 (2004: HK$70,181,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$662,512,000 (2004: HK$660,048,000) due to the unpredictability of future profit streams. Included in unused tax losses is tax losses of HK$8,276,000 (2004: HK$8,326,000) which will expire within five years.

At the balance sheet date, the Group has deductible temporary differences of HK$24,151,000 (2004: HK$40,122,000) in respect of accelerated accounting depreciation and allowance for doubtful debts. A deferred tax asset has been recognised in respect of HK$15,234,000 (2004: HK$13,760,000) of such deductible temporary differences. No deferred tax asset has been recognised in respect of the remaining HK$8,917,000 (2004: HK$26,362,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 37. DISPOSAL OF SUBSIDIARIES

On 21st January, 2005, the Group entered into an agreement with China Rope Holdings Limited ("China Rope") (an associate of which the Group has 30% interest) in relation to the disposal of its entire 51% equity interest in Bridon Tianjin Rope Ltd. to China Rope for a cash consideration of US$1.3 million (approximately HK$10.4 million). A portion of gain on disposal of a subsidiary attributable to the Group's interest through China Rope was deferred and offset against the Group's interests in associates as disclosed in note 22.

In addition, the Group disposed of its 67.5% equity interest in Luenik Construction Material Company Limited for a cash consideration of HK$3 million during the year ended 31st December, 2005.

During the year ended 31st December, 2004, the Group disposed of its entire 80% equity interest in Locusrite Limited for a consideration of HK$5,449,000. In addition, the Group disposed of 84% and 51.24% equity interest in Full Glory Corporation Limited and Changzhou Golik Color Coated Steel Manufactory Co., Ltd. respectively for an aggregate consideration of HK$8,000.

The subsidiaries disposed contributed approximately HK$36 million (2004: HK$124 million) to the Group's turnover and incurred a loss before taxation of approximately HK$0.1 million (2004: contributed a profit before taxation of HK$5 million) to the Group.

| | **2005**<br>**HK$'000** | 2004<br>HK$'000 |
|---|---|---|
| **Net assets disposed of** | | |
| Goodwill | **–** | 1,590 |
| Property, plant and equipment | **2,424** | 46,786 |
| Inventories | **12,590** | 25,191 |
| Trade and other receivables | **22,299** | 47,000 |
| Income tax recoverable | **10** | – |
| Pledged bank deposits | **–** | 45,155 |
| Bank balances and cash | **8,348** | 3,444 |
| Trade and other payables | **(19,148)** | (96,822) |
| Amounts due to minority shareholders | **(1,427)** | (2,837) |
| Income tax payable | **–** | (621) |
| Bank borrowings, other than bank overdraft | **(9,433)** | (46,242) |
| Bank overdrafts | **–** | (6,596) |
| Obligations under finance leases | **–** | (108) |
| Deferred tax liabilities | **–** | (462) |
| | **15,663** | 15,478 |
| Goodwill reserve realised | **–** | 1,279 |
| Exchange reserve realised | **(30)** | (257) |
| Minority interests released | **(6,099)** | (10,730) |
| Gain (loss) on disposal of subsidiaries (below) | **3,820** | (313) |
| Total consideration | **13,354** | 5,457 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 37. DISPOSAL OF SUBSIDIARIES *(Continued)*

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| Net cash inflow arising on disposal: | | |
| Cash consideration | 13,354 | 5,457 |
| Bank balances and cash disposed of | (8,348) | (3,444) |
| Bank overdrafts disposed of | – | 6,596 |
| Net inflow of cash and cash equivalents in respect of disposal of subsidiaries | 5,006 | 8,609 |
| Gain (loss) disposal of subsidiaries (above) | 3,820 | (313) |
| *Less*: unrealised gain on disposal offset against interests in associates *(note 22)* | (1,414) | – |
| Gain (loss) recognised in consolidated income statement | 2,406 | (313) |

## 38. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance leases in respect of the acquisition of property, plant and equipment with a total capital value at the inception of the leases of HK$5,354,000 (2004: HK$3,741,000).

## 39. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

| | 2005<br>HK$'000 | 2004<br>HK$'000<br>(restated) |
|---|---|---|
| Investment properties | 23,600 | 35,560 |
| Land and buildings and prepaid lease payments | 45,404 | 62,598 |
| Plant and machinery and equipment | 14,495 | 18,565 |
| Bank deposits | 23,604 | 16,980 |
| | 107,103 | 133,703 |

In addition, the Group had created a floating charge over certain assets of a subsidiary with a carrying value of HK$26,000 (2004: HK$25,000) to a bank as securities against banking facilities granted to the Group.

## 40. CONTINGENT LIABILITIES

(i) At the balance sheet date, the Group has provided corporate guarantees to the extent of HK$1,600,000 to a bank to secure the banking facilities granted to an associate.

(ii) At the balance sheet date, the Group had provided corporate guarantees to the extent of Nil (2004: HK$3,741,000) to a supplier to secure supply of goods to its former subsidiary.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 41. OPERATING LEASE COMMITMENTS

**As lessee**

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

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Land and buildings: | | |
| Within one year | **11,917** | 12,931 |
| In the second to fifth year inclusive | **26,296** | 31,664 |
| After five years | **20,430** | 15,473 |
| | **58,643** | 60,068 |
| Plant and machinery and equipment: | | |
| Within one year | **1,440** | 2,380 |
| In the second to fifth year inclusive | **720** | 4,041 |
| | **2,160** | 6,421 |

Operating lease payments represent rentals payable by the Group for certain of its office premises, staff quarters and plant and machinery and equipment. Leases of office premises and staff quarters are negotiated for terms ranging from one to twenty-five years. Leases of plant and machinery and equipment are negotiated for terms ranging from five to ten years.

**As lessor**

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

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Land and buildings: | | |
| Within one year | **909** | 1,288 |
| In the second to fifth year inclusive | **1,722** | 1,657 |
| After five years | **701** | 1,163 |
| | **3,332** | 4,108 |
| Plant and machinery and equipment: | | |
| Within one year | **–** | 1,656 |
| In the second to fifth year inclusive | **–** | 1,380 |
| | **–** | 3,036 |

All of the properties held have committed tenants for the next one to five years.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 42. CAPITAL COMMITMENTS

| | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment: | | |
| Contracted for but not provided in the financial statements | **2,602** | 797 |

## 43. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of independent trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes at 5% of relevant payroll costs or HK$1,000 per month to the Scheme.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

During the year, the Group made retirement benefits scheme contributions of HK$2,857,000 (2004: HK$3,753,000) after forfeited contributions utilised in the Group's ORSO Scheme of HK$77,000 (2004: HK$595,000).

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

| | Trade purchases | | Rental charges | | Acquisition of further interest in a subsidiary | | Disposal of subsidiaries to | | Interest income | | Payment on behalf of the entities | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **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 |
| A jointly controlled entity | **2,307** | 3,637 | **–** | – | **–** | – | **–** | – | **–** | 173 | **1,000** | 2,051 |
| Associates | **–** | – | **–** | – | **–** | – | **10,354** | – | **–** | – | **16** | – |
| Minority shareholders of subsidiaries | **–** | – | **634** | 1,435 | **–** | 1,090 | **3,000** | 5,449 | **–** | – | **–** | – |

*Compensation of key management personnel*

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 11.

Their remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

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

The credit risk on liquid funds is limited because majority of the counterparties are banks with creditworthy financial institutions.

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

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Interest rate risk**

The Group has exposures to cash flow interest rate risk as its bank borrowings is subject to floating interest rate. Currently, interest rate risk is not hedged. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's bank balances and deposits are all short term in nature, any future variations in interest rate will not have a significant impact on the results of the Group.

**Currency risk**

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions (see note 27). The use of financial derivatives is monitored by authorised persons of subsidiaries.

## 46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY

| Name | Form of business structure | Place of incorporation/ registration/ operation | Issued and fully paid share capital/paid up registered capital | Proportion of nominal value of issued capital/ registered capital held by the Group | Principal activities |
|---|---|---|---|---|---|
| Advance Concord Development Limited | Incorporated | Hong Kong | HK$1,000,000 Ordinary shares | 100% | Property holding |
| China Metal Technology Holdings Limited | Incorporated | Hong Kong | HK$1,000,000 Ordinary shares | 100% | Investment holding and trading of steel and metal products |
| Dah Bang Printing Ink Manufactory Limited | Incorporated | Hong Kong | HK$10,000 Ordinary shares HK$10,100,000 Non-voting deferred shares ** | 95% | Investment holding and sales of printing materials, spare parts and machines |
| Daido Concrete (H.K.) Limited | Incorporated | Hong Kong | HK$750,000,000 Ordinary shares | 100% | Investment and properties holding |
| Ding Cheong Limited | Incorporated | Hong Kong | HK$500,000 Ordinary shares | 55% | Investment holding and sales of construction materials |
| Golik Concrete Limited | Incorporated | Hong Kong | HK$60,000,000 Ordinary shares | 100% | Investment holding and operating a concrete batching plant |
| Fulwealth Metal Factory Limited * | Incorporated | Hong Kong | HK$20,000,000 Ordinary shares | 77% | Decoiling centre |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

| Name | Form of business structure | Place of incorporation/ registration/ operation | Issued and fully paid share capital/paid up registered capital | Proportion of nominal value of issued capital/ registered capital held by the Group | Principal activities |
|---|---|---|---|---|---|
| Golik Godown Limited | Incorporated | Hong Kong | HK$2 Ordinary shares | 100% | Provision of warehouse services |
| Golik Metal Industrial Company Limited * | Incorporated | Hong Kong | HK$10,000 Ordinary shares HK$5,135,000 Non-voting deferred shares ** | 100% | Investment holding and sales of metal products |
| Golik Metal Manufacturing Co. Limited | Incorporated | Hong Kong | HK$30,000,000 Ordinary shares | 100% | Manufacturing and sales of welded wire mesh and metal products |
| Golik Properties Limited * | Incorporated | Hong Kong | HK$2 Ordinary shares | 100% | Property investment |
| Golik Steel Company Limited | Incorporated | Hong Kong | HK$80,000,000 Ordinary shares | 100% | Investment holding and sales of steel bars and metal products |
| Heshan Hang Kei Steel Wire Manufacturing Company Limited ("Heshan Hang Kei") | Equity joint venture | PRC | US$3,880,000 Registered capital | 60% *(note)* | Manufacturing and sales of steel wire products and steel ropes |
| Orient Smart Industrial Limited | Incorporated | Hong Kong | HK$10,000,000 Ordinary shares | 51% | Manufacturing and sales of PVC plastic products |
| Stahl Trading Pty Limited | Incorporated | Australia | AUS$100 Ordinary shares | 100% | Sales of steel and metal products |
| The Spacers & Bar Chairs Manufacturer Company Limited | Incorporated | Hong Kong | HK$800,000 Ordinary shares | 80% | Manufacturing and sales of construction materials |
| Tianjin Golik – The First PC Steel Strand Co., Limited | Equity joint venture | PRC | RMB49,000,000 Registered capital | 51% | Manufacturing and sales of prestressed steel wire |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 46. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

| Name | Form of business structure | Place of incorporation/ registration/ operation | Issued and fully paid share capital/paid up registered capital | Proportion of nominal value of issued capital/ registered capital held by the Group | Principal activities |
|---|---|---|---|---|---|
| Worldlight Group Limited * | Incorporated | British Virgin Islands/Hong Kong | US$2 Ordinary shares | 100% | Investment holding |
| 定昌(江門)五金製品有限公司 | Wholly owned foreign enterprise | PRC | HK$3,000,000 Registered capital | 55% | Manufacturing and sales of metal products |
| 廣東水利混凝土有限公司 | Equity joint venture | PRC | RMB27,800,000 Registered capital | 100% | Operating a concrete batching plant |
| 廣州保税區高力金屬貿易有限公司 | Equity joint venture | PRC | HK$5,000,000 Registered capital | 80% | Sales of steel and metal products |
| 鶴山高力金屬制品有限公司 | Equity joint venture | PRC | US$1,712,140 Registered capital | 81.6% | Manufacturing and sales of steel wire products and steel ropes |

* Subsidiaries held directly by the Company

** The deferred shares, which are not held by the Group, practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

*Note*

Under a joint venture agreement, the Group has contributed 60% of the registered capital in Heshan Hang Kei, an equity joint venture company in the PRC, with a term of 20 years commencing from 21st March, 1995. However, under a supplemental joint venture agreement, the Group will be entitled to 100% of the joint venture company's profit after deducting a fixed annual amount attributable to assets contributed by the PRC joint venture partner. On cessation of the joint venture company, the Group will be entitled to all assets of Heshan Hang Kei other than those contributed by the PRC joint venture partner.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had any debt security outstanding at the end of the year or at any time during the year.

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 47. COMPANY'S BALANCE SHEET

| | 2005<br>HK$'000 | 2004<br>HK$'000 |
|---|---|---|
| **Non-current Assets** | | |
| Property, plant and equipment *(note a)* | **1,006** | 1,314 |
| Investments in subsidiaries | **244,826** | 248,096 |
| Investment in an associate | **5,449** | – |
| Rental deposits | **259** | 259 |
| | **251,540** | 249,669 |
| **Current Assets** | | |
| Other receivables | **3,647** | 4,793 |
| Amounts due from subsidiaries | **378,614** | 401,256 |
| Amount due from an associate | **202** | – |
| Pledged bank deposits | **–** | 7,501 |
| Bank balances and cash | **349** | 313 |
| | **382,812** | 413,863 |
| **Current Liabilities** | | |
| Other payables | **1,012** | 723 |
| Amounts due to subsidiaries | **123,657** | 118,738 |
| Bank borrowings | **–** | 48,000 |
| Obligation under a finance lease | **231** | 223 |
| | **124,900** | 167,684 |
| **Net Current Assets** | **257,912** | 246,179 |
| | **509,452** | 495,848 |
| **Capital and Reserves** | | |
| Share capital | **56,736** | 56,736 |
| Reserves | **452,636** | 420,286 |
| | **509,372** | 477,022 |
| **Non-current Liabilities** | | |
| Bank borrowings | **–** | 18,516 |
| Obligation under a finance lease | **80** | 310 |
| | **80** | 18,826 |
| | **509,452** | 495,848 |

# Notes to the Consolidated Financial Statements

*For the year ended 31st December, 2005*

## 47. COMPANY'S BALANCE SHEET *(Continued)*

### a. Property, plant and equipment

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1st January, 2004 | 617 | 540 | 709 | 1,866 |
| Additions | – | 19 | 1,069 | 1,088 |
| At 31st December, 2004 | 617 | 559 | 1,778 | 2,954 |
| Additions | – | 87 | – | 87 |
| **At 31st December, 2005** | **617** | **646** | **1,778** | **3,041** |
| DEPRECIATION | | | | |
| At 1st January, 2004 | 617 | 436 | 227 | 1,280 |
| Provided for the year | – | 43 | 317 | 360 |
| At 31st December, 2004 | 617 | 479 | 544 | 1,640 |
| Provided for the year | – | 39 | 356 | 395 |
| **At 31st December, 2005** | **617** | **518** | **900** | **2,035** |
| CARRYING VALUES | | | | |
| **At 31st December, 2005** | **–** | **128** | **878** | **1,006** |
| At 31st December, 2004 | – | 80 | 1,234 | 1,314 |