Notes to the Financial Statements

For the Year Ended 31 December 2005

1. GENERAL

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

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because Shougang Holding has agreed to provide adequate funds for the Company to meet in full its financial obligations as they fall due for the foreseeable future.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(a) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group and the Company have applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see Note 4 for the financial impact).

(b) Financial Instruments

In the current year, the Group and the Company have applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The application of HKAS 32 has had no material impact on how financial instruments are presented for current and prior accounting periods. HKAS 39, which is effective for periods beginning on or after 1 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 and the Company have applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group and the Company have classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets and financial liabilities are initially measured at fair value. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or other financial liabilities". The Group and the Company have applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets from 1 January 2005 onwards. As a result, the Group's bills receivable discounted with full recourse amounted to approximately HK$10,018,000 which were derecognised prior to 1 January 2005 have not been restated. As at 31 December 2005, the Group's bills receivable discounted with full recourse have not been derecognised. Instead, the related borrowings of approximately HK$9,879,000 have been recognised on the balance sheet date. This change in accounting policy has had no material effect on the results for the current year.

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(b) Financial Instruments (continued)

Interest-free non-current loans

Prior to the application of HKAS 39, advances to subsidiaries were stated at the nominal amounts. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free advances are measured at amortised costs determined using the effective interest method at subsequent balance sheet dates. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the advances as at 1 January 2005 has been decreased by approximately HK$4,836,000 in order to state the loans at amortised costs in accordance with HKAS 39. The Company's cost of investment as at 1 January 2005 has been increased by approximately HK$4,836,000. Loss for the year has been decreased by approximately HK$4,836,000 due to the recognition of imputed interest income.

(c) Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous year, investment properties under the predecessor standard were measured at open market value, 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 surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change in accounting policy has had no material effect on the results for the current year.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

(d) Share-based Payment

In the current year, the Group and the Company have applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group and the Company buy goods or obtain services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group and the Company are in relation to the expensing of the fair value of share options granted to Directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group and the Company did not recognise the financial effect of these share options until they were exercised. The Group and the Company have applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group and the Company choose not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005. However, the Group and the Company are still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 4 for the financial impact).

Notes to the Financial Statements

For the Year Ended 31 December 2005

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies of the Group described in Note 3 on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	HK$'000
Decrease in share of result of an associate	**(1,253)**	(2,109)
Decrease in share of results of jointly controlled entities	**(194)**	(292)
Decrease in income tax expenses	**1,447**	2,401
Recognition of share based payments as expenses	**(15,720)**	(8,774)
Increase in loss for the year	**(15,720)**	(8,774)

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

The cumulative effects of the application of the new HKFRSs described in Note 3 on 31 December 2004 and 1 January 2005 are summarised below:

	At 31 December 2004 (as originally stated)	Retrospective adjustments			At 31 December 2004 (as restated)
		HKAS 1	HKAS 17	HKFRS 2	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP					
Balance sheet items					
Property, plant and equipment	541,603	–	(14,037)	–	527,566
Prepaid lease payments	–	–	14,037	–	14,037
Trade and bills receivables	116,166	–	–	–	116,166
Bank borrowings	(118,148)	–	–	–	(118,148)
Other assets and liabilities	179,777	–	–	–	179,777
Total effects on assets and liabilities	719,398	–	–	–	719,398
Share capital	299,751	–	–	–	299,751
Deficit	(51,130)	–	–	(10,602)	(61,732)
Share option reserve	–	–	–	10,602	10,602
Other reserves	461,402	–	–	–	461,402
Minority interests	–	9,375	–	–	9,375
Total effects on equity	710,023	9,375	–	–	719,398
Minority interests	9,375	(9,375)	–	–	–

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

	At 31 December 2004 (as originally stated)	Retrospective adjustments HKAS 1	HKAS 17	HKFRS 2	At 31 December 2005 (as restated)	Prospective adjustment HKAS 39	At 1 January 2005 (as restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE COMPANY							
Balance sheet items							
Property, plant and equipment	26,303	–	(6,592)	–	19,711	–	19,711
Prepaid lease payments	–	–	6,592	–	6,592	–	6,592
Investments in subsidiaries	26,744	–	–	–	26,744	4,836	31,580
Advances to subsidiaries	198,287	–	–	–	198,287	(4,836)	193,451
Other assets and liabilities	433,803	–	–	–	433,803	–	433,803
Total effects on assets and liabilities	685,137	–	–	–	685,137	–	685,137
Share capital	299,751	–	–	–	299,751	–	299,751
Deficit	(76,016)	–	–	(10,602)	(86,618)	–	(86,618)
Share option reserve	–	–	–	10,602	10,602	–	10,602
Other reserves	461,402	–	–	–	461,402	–	461,402
Total effects on equity	685,137	–	–	–	685,137	–	685,137

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

The financial effects of the application of the new HKFRSs described in Note 3 to the Group's and the Company's equity on 1 January 2004 are summarised below:

	As originally stated	HKAS 1	HKFRS 2	As restated
	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP				
Share capital	298,426	–	–	298,426
Retained profits	42,889	–	(1,828)	41,061
Share option reserve	–	–	1,828	1,828
Other reserves	459,653	–	–	459,653
Equity holders of the parent	800,968	–	–	800,968
Minority interests	–	9,605	–	9,605
Total effects on equity	800,968	9,605	–	810,573

	As originally stated	HKAS 1	HKFRS 2	As restated
	HK$'000	HK$'000	HK$'000	HK$'000
THE COMPANY				
Share capital	298,426	–	–	298,426
Retained profits	(72,872)	–	(1,828)	(74,700)
Share option reserve	–	–	1,828	1,828
Other reserves	459,653	–	–	459,653
Equity holders of the parent	685,207	–	–	685,207

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

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards and interpretations will have no material impact on the financial statements of the Group, except for HKAS 39 & HKFRS 4 (Amendments) which require financial guarantee contracts to be initially measured at fair value. The Directors are unable to reasonably estimate the potential impact that may result from the adoption of these 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 1 January 2007.

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Investments in subsidiaries

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. 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.

Revenue recognition

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.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

Service income is recognised when services are provided.

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 year in which they arise.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

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

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

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

Property, plant and equipment

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

Construction in progress is stated at cost, which includes land cost and the related construction cost, less accumulated impairment losses. No depreciation is provided on construction in progress until the construction in completed and the properties and asset are ready for use.

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

Assets classified as held for sale

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

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

Club debenture

Club debenture is measured at cost less accumulated impairment losses.

Leasing

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as lessor

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

The Group as lessee

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

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

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 re-translated 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 re-translated.

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Retirement benefits costs

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

Taxation

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

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

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

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

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

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

Inventories

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets

The Group's and the Company's financial assets are classified as loans and receivables. The accounting policy adopted is set out below.

Loans and receivables

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade and bills payables, other payables and accruals, amounts due to subsidiaries, amount due to a related company, amount due to a shareholder, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

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 or the Company 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 or the Company's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Notes to the Financial Statements

For the Year Ended 31 December 2005

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions

Share options granted to employees of the Company

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

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

Share options granted to suppliers/consultants

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

Impairment losses

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

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

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation

The Group's and the Company's net book value of property, plant and equipment as at 31 December 2005 were approximately HK$311 million and HK$18 million, respectively. The Group and the Company depreciate the plant and machinery on a straight line basis over the estimated useful life of five to twenty-five years, and after taking into account of their estimated residual value, using the straight line method, at the rate 4% to 20% per annum, commencing from the date the equipment is available for use. The estimated useful life and dates that the Group and the Company place the equipment into productive use reflects the Directors' estimate of the periods that the Group and the Company intend to derive future economic benefits from the use of the Group's and the Company's plant and equipment.

Impairment loss recognised on property, plant and equipment

During the year, the Directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to the recoverable amount is below the carrying amount. As a result, an impairment loss on property, plant and equipment amounted to approximately HK$123,671,000 is recognised in the income statement. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the plant and machinery and the discount rate in order to calculate the present value. In the case where the actual future cash flows are less than expected, a material further impairment loss may arise, which would be recognised in the income statement.

Impairment loss recognised on accounts receivable

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment loss recognised on inventories

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

Income taxes

As at 31 December 2005, a deferred tax asset of approximately HK$30,044,000 in relation to unused tax losses has been recognised in the Group's balance sheet respectively. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's major financial instruments include trade and bills receivables, other receivables, amount due from (to) an associate, amount due from a jointly controlled entity, trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Hence, certain trade receivables at 31 December 2005 of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group and the Company are exposed to cash flow interest rate risk that relates to variable-rate borrowings. On the other hand, the Group is exposed to fair value interest rate risk that relates to its fixed rate finance lease payables. The interest rates and terms of repayment of bank borrowings and obligations under finance leases of the Group are disclosed in Notes 35 and 36, respectively. The Group and the Company currently do not entered into interest rate swaps to hedge against its exposure to changes in fair value of the borrowings. However, the management monitors the fair value interest rate risk and will consider hedging fixed rate borrowings should the need arises.

Credit risk

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

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high crediting ratings assigned by international credit rating agencies.

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

The Company has no significant credit risk as at 31 December 2005.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group has net current liabilities and recurring operating losses. The Group is exposed to liquidity risk if it is not able to raise sufficient funds to meet its financial obligations. The Group relies on the support by Shougang Holding which has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due for the foreseeable future.

8. REVENUE

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

	2005 **HK$'000**	2004 HK$'000
Sales of goods	**415,057**	422,855
Rendering of services	**10,197**	12,233
Gross rental income	**1,422**	1,444
	426,676	436,532

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into five operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Inter-segment sales are charged at prevailing market prices.

Segment information about these businesses is presented below:

For the year ended 31 December 2005

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
REVENUE								
External sales	189,779	91,972	48,898	66,344	20,868	8,815	–	426,676
Inter-segment sales	32,853	4,323	529	–	–	22,555	(60,260)	–
Total	222,632	96,295	49,427	66,344	20,868	31,370	(60,260)	426,676
RESULT								
Segment results	(13,215)	(6,445)	(10,336)	3,049	(226,377)	(25,467)		(278,791)
Other income								3,502
Fair value changes in investment properties						8,263		8,263
Finance costs								(13,197)
Share of result of an associate			10,493					10,493
Share of results of jointly controlled entities						13,860		13,860
Loss before tax								(255,870)
Income tax expense								(2,025)
Loss for the year								(257,895)

Notes to the Financial Statements

For the Year Ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (continued)

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Total HK$'000
BALANCE SHEET							
Segment assets	121,636	51,771	77,712	43,159	221,655	135,105	651,038
Investment in an associate			46,588				46,588
Investments in jointly controlled entities						186,421	186,421
Consolidated total assets							884,047
Segment liabilities	31,192	15,659	15,191	18,041	16,287	17,748	114,118
Unallocated corporate liabilities							291,045
Consolidated total liabilities							405,163
OTHER INFORMATION							
Capital expenditure	5,988	294	2,036	590	740	958	10,606
Depreciation	9,222	1,503	4,215	2,258	78,985	3,761	99,944
Impairment loss recognised on property, plant and equipment	–	–	–	–	123,671	–	123,671
Gain on disposal of property, plant and equipment	–	–	–	–	66	4	70
Impairment loss recognised on accounts receivable	1,011	807	–	–	–	–	1,818
Impairment loss recognised on investories	3,385	1,178	521	–	–	–	5,084

Notes to the Financial Statements

For the Year Ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000 (as restated)
REVENUE								
External sales	210,022	90,750	65,096	54,820	2,167	13,677	–	436,532
Inter-segment sales	29,469	1,130	233	155	–	24,034	(55,021)	–
Total	239,491	91,880	65,329	54,975	2,167	37,711	(55,021)	436,532
RESULT								
Segment results	(12,040)	(14,937)	956	4,491	(99,310)	(22,334)		(143,174)
Other income								5,033
Fair value changes in investment properties						4,515		4,515
Finance costs								(10,837)
Share of result of an associate			10,388					10,388
Share of results of jointly controlled entities						31,028		31,028
Loss before tax								(103,047)
Income tax credit								624
Loss for the year								(102,423)

Notes to the Financial Statements

For the Year Ended 31 December 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004 (continued)

	Telephone accessories and power cords HK$'000	Adaptors and electronic products HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Others HK$'000	Total HK$'000 (as restated)
BALANCE SHEET							
Segment assets	127,406	57,163	63,650	45,335	418,124	153,247	864,925
Investment in an associate			35,385				35,385
Investments in jointly controlled entities						181,610	181,610
Unallocated corporate assets							1,658
Consolidated total assets							1,083,578
Segment liabilities	36,255	18,091	24,145	16,318	25,178	32,052	152,039
Unallocated corporate liabilities							212,141
Consolidated total liabilities							364,180
OTHER INFORMATION							
Capital expenditure	10,595	2,237	2,585	2,878	40,415	6,206	64,916
Depreciation	9,031	1,398	5,801	3,595	74,445	4,243	98,513
Loss on disposal of property, plant and equipment	–	–	–	–	–	19	19
Impairment on recognised on accounts receivable	1,040	1,616	–	–	–	284	2,940
Impairment loss recognised on inventories	4,529	1,382	797	–	–	–	6,708
Impairment loss recognised on intangible assets	3,736	5,584	–	–	430	–	9,750
Impairment loss recognised on golf club membership	180	–	–	–	–	220	400

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

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

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

	2005 HK$'000	2004 HK$'000
The PRC	**57,368**	52,756
Hong Kong	**250,718**	235,739
Europe	**61,842**	81,838
Australia	**10,469**	10,834
Others	**46,279**	55,365
	426,676	436,532

The following is an analysis of the carrying amount of segment assets, and additions to 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 property, plant and equipment and intangible assets**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
The PRC	**325,423**	391,525	**9,796**	21,429
Hong Kong	**558,624**	692,053	**810**	43,487
	884,047	1,083,578	**10,606**	64,916

Notes to the Financial Statements

For the Year Ended 31 December 2005

10. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Interest on bank deposits	**186**	741
Proceeds from sale of scrap	**4,453**	4,768
Others	**3,502**	5,033
	8,141	10,542

11. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**7,327**	6,812
Finance leases	**4,716**	4,025
Amount due to a related company	**1,154**	–
	13,197	10,837

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For the Year Ended 31 December 2005

12. LOSS BEFORE TAX

	2005 HK$'000	2004 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Staff costs, including Directors' remuneration (Note 13):		
– Salaries, wages and other benefits	**94,366**	86,190
– Retirement benefit scheme contributions	**2,883**	2,872
Total staff costs	**97,249**	89,062
Impairment loss recognised on accounts receivable	**1,818**	2,940
Impairment loss recognised on inventories	**5,084**	6,708
Amortisation of intangible assets (included in administrative expenses)	**–**	2,668
Auditors' remuneration	**1,422**	1,306
Cost of inventories recognised as expenses	**517,852**	507,908
Depreciation of property, plant and equipment	**99,944**	98,513
Release of prepaid lease payments charged to income statement	**471**	536
(Gain) loss on disposal of property, plant and equipment	**(70)**	19
Net foreign exchange losses	**670**	710
Impairment loss recognised on intangible assets	**–**	9,750
Impairment loss recognised on golf club membership	**–**	400
Share of tax of an associate (included in share of result of an associate	**1,253**	2,109
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	**194**	292

Notes to the Financial Statements

For the Year Ended 31 December 2005

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 13 (2004: 16) Directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payment HK$'000 (Note)	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
2005					
Cao Zhong	120	6,353	–	–	6,473
Zhang Wenhui	–	1,950	150	90	2,190
Luo Zhenyu	–	–	–	–	–
Tzu San Te	–	3,112	98	12	3,222
Yuan Wenxin	–	600	–	6	606
Tse Chun Sing	–	3,558	124	149	3,831
Chen Jang Fung	120	–	–	–	120
Leung Shun Sang, Tony	120	–	–	–	120
Chan Wah Tip, Michael	150	–	–	–	150
Choy Hok Man, Constance	150	–	–	–	150
Kan Lai Kuen, Alice	150	–	–	–	150
Kwan Bo Ren, Dick	150	–	–	–	150
Wong Kun Kim	150	–	–	–	150
	1,110	15,573	372	257	17,312
2004					
Cao Zhong	10	3,510	–	–	3,520
Zhang Wenhui	10	961	–	–	971
Luo Zhenyu	10	2,972	120	–	3,102
Tzu San Te	10	1,653	–	–	1,663
Yuan Wenxin	10	2,320	50	12	2,392
Tse Chun Sing	10	1,493	124	149	1,776
Chen Jang Fung	10	–	–	–	10
Leung Shun Sang, Tony	10	–	–	–	10
Chan Wah Tip, Michael	10	–	–	–	10
Choy Hok Man, Constance	10	–	–	–	10
Kan Lai Kuen, Alice	10	–	–	–	10
Kwan Bo Ren, Dick	–	–	–	–	–
Wong Kun Kim	10	–	–	–	10
Yu Jian	–	978	–	–	978
Xu Xianghua	–	–	–	–	–
Liu Wei	100	–	–	–	100
	220	13,887	294	161	14,562

Note: Performance related incentive payment is determined based on the individual performance of the directors for the two years ended 31 December 2005.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments – continued

In April 2005, a Director had agreed to waive his emoluments of HK$10,000 for the year ended 31 December 2004. No Director waived any emoluments in the year ended 31 December 2005.

(b) Employees' Emoluments

During the year, the five highest paid individuals included four Directors (2004: five Directors), details of whose emoluments are set out above. The emoluments of the remaining one highest paid individual for the year ended 31 December 2005 were as follows:

	2005 HK$'000
Salaries and other benefits	997
Retirement benefits schemes contributions	12
	1,009

The emoluments of the employees were within the band from HK$1,000,001 to HK$1,500,000.

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For the Year Ended 31 December 2005

14. INCOME TAXES

	2005 HK$'000	2004 HK$'000 (as restated)
Current tax:		
Hong Kong	**(240)**	(545)
Other region in the PRC	**(470)**	–
	(710)	(545)
Overprovision in prior years:		
Hong Kong	**601**	747
	(109)	202
Deferred tax (Note 40):	**(1,916)**	422
	(2,025)	624

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

PRC Foreign Enterprise Income Tax is calculated at the prevailing tax rate of 33% on the taxable income of a subsidiary in the PRC.

14. INCOME TAXES (continued)

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

	2005 HK$'000	2004 HK$'000 (as restated)
Loss before tax	**(255,870)**	(103,047)
Tax at Hong Kong Profits Tax rate of 17.5%	**(44,777)**	(18,033)
Tax effect of expenses that are not deductible in determining taxable profit	**6,359**	8,375
Tax effect of income not taxable in determining taxable profit	**(3,184)**	(2,180)
Tax effect of share of results of an associate	**(1,836)**	(1,818)
Tax effect of share of results of jointly controlled entities	**(2,426)**	(5,430)
Utilisation of tax losses not recognised in previous years	**(150)**	(639)
Tax effect of tax losses not recognised	**48,640**	19,774
Overprovision in prior years	**(601)**	(747)
Others	**–**	74
Tax charge (credit) for the year	**2,025**	(624)

15. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

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16. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to ordinary equity holders of the parent of approximately HK$259,075,000 (2004: HK$102,793,000 as restated) and 1,199,003,583 (2004: weighted average number of 1,198,657,282) ordinary shares in issue during the year.

The computation of diluted loss per share for both years does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share from continuing ordinary operation.

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

	2005	2004
	HK cents	HK cents
Figures before adjustments	**(20.30)**	(7.84)
Adjustments arising from changes in accounting policies (see Note 4)	**(1.31)**	(0.73)
	(21.61)	(8.57)

17. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
FAIR VALUE	
At 1 January 2004	22,935
Increase in fair value recognised in the income statement	4,515
At 31 December 2004 and 1 January 2005	27,450
Reclassified from property, plant and equipment (Note 18)	735
Reclassified from prepaid lease payments (Note 19)	1,638
Reclassified to assets classified as held for sale (Note 31)	(29,100)
Increase in fair value recognised in the income statement	8,263
At 31 December 2005	8,986

17. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by Messrs. AA Property Services Limited, qualified professional valuers not connected with the Group. Messrs. AA Property Services Limited are members of the Institute of Valuers. The valuation, which conformed to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. All of the Group's investment properties are rented out under operating leases.

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The carrying value of investment properties shown above comprises:		
Long leases in Hong Kong	**6,100**	2,550
Medium-term leases in Hong Kong	**–**	22,500
Long leases in the PRC	**2,886**	2,400
	8,986	27,450

Notes to the Financial Statements

For the Year Ended 31 December 2005

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Machinery, moulds and tools HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2004							
– As originally stated	92,473	1,793	638,745	121,313	8,060	58,593	920,977
– Reclassified to prepaid lease payments	(16,353)	–	–	–	–	–	(16,353)
– As restated	76,120	1,793	638,745	121,313	8,060	58,593	904,624
Additions	–	1,168	48,656	8,605	781	2,801	62,011
Written off/disposals	–	–	(19,451)	(1,578)	(1,216)	(3,315)	(25,560)
Reclassification	–	(2,259)	30,670	(29,125)	–	714	–
At 31 December 2004 (as restated) and 1 January 2005	76,120	702	698,620	99,215	7,625	58,793	941,075
Additions	–	1,946	6,486	1,308	514	352	10,606
Written off/disposals	–	–	–	(171)	(150)	(655)	(976)
Reclassified to investment properties (Note 17)	(1,191)	–	–	–	–	–	(1,191)
Reclassified to assets classified as held for sale (Note 31)	(2,707)	–	–	–	–	–	(2,707)
Reclassification	–	(548)	–	–	–	548	–
At 31 December 2005	72,222	2,100	705,106	100,352	7,989	59,038	946,807
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004							
– As originally stated	25,807	–	212,292	71,140	7,074	25,507	341,820
– Reclassified to prepaid lease payments	(1,780)	–	–	–	–	–	(1,780)
– As restated	24,027	–	212,292	71,140	7,074	25,507	340,040
Provided for the year (as restated)	2,386	–	85,443	6,798	819	3,067	98,513
Eliminated on written off/disposals	–	–	(19,451)	(1,543)	(1,216)	(2,834)	(25,044)
At 31 December 2004 (as restated) and 1 January 2005	26,413	–	278,284	76,395	6,677	25,740	413,509
Provided for the year	2,265	–	88,553	5,593	644	2,889	99,944
Impairment loss recognised in the income statement	–	–	123,671	–	–	–	123,671
Eliminated on written off/disposals	–	–	–	(157)	(95)	(65)	(317)
Reclassified to investment properties (Note 17)	(456)	–	–	–	–	–	(456)
Reclassified to assets classified as held for sale (Note 31)	(237)	–	–	–	–	–	(237)
At 31 December 2005	27,985	–	490,508	81,831	7,226	28,564	636,114
CARRYING VALUES							
At 31 December 2005	44,237	2,100	214,598	18,521	763	30,474	310,693
At 31 December 2004 (as restated)	49,707	702	420,336	22,820	948	33,053	527,566

18. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Machinery, moulds and tools HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
THE COMPANY						
COST						
At 1 January 2004						
– As originally stated	32,585	59,053	48,605	714	31,607	172,564
– Reclassified to prepaid lease payments	(6,890)	–	–	–	–	(6,890)
– As restated	25,695	59,053	48,605	714	31,607	165,674
Written off	–	(15,353)	–	(685)	–	(16,038)
Transferred to a subsidiary	–	–	(30,420)	–	(10,530)	(40,950)
At 31 December 2004 (as restated), 1 January 2005 and at 31 December 2005	25,695	43,700	18,185	29	21,077	108,686
DEPRECIATION						
At 1 January 2004						
– As originally stated	12,856	59,053	18,185	714	12,448	103,256
– Reclassified to prepaid lease payments	(22)	–	–	–	–	(22)
– As restated	12,834	59,053	18,185	714	12,448	103,234
Provided for the year (as restated)	1,027	–	–	–	752	1,779
Eliminated on written off	–	(15,353)	–	(685)	–	(16,038)
At 31 December 2004 (as restated) and 1 January 2005	13,861	43,700	18,185	29	13,200	88,975
Provided for the year	1,027	–	–	–	751	1,778
At 31 December 2005	14,888	43,700	18,185	29	13,951	90,753
CARRYING VALUES						
At 31 December 2005	10,807	–	–	–	7,126	17,933
At 31 December 2004 (as restated)	11,834	–	–	–	7,877	19,711

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

18. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(as restated)		(as restated)
The carrying value of buildings shown above comprises:				
Long leases in Hong Kong	**2,130**	2,982	**2,130**	2,223
Medium-term leases in Hong Kong	**1,610**	4,189	**–**	–
Long leases in the PRC	**597**	645	**–**	–
Medium-term leases in the PRC	**39,900**	41,891	**8,677**	9,611
	44,237	49,707	**10,807**	11,834

The net book value of machinery of approximately HK$214,598,000 (2004: HK$420,336,000) includes an amount of approximately HK$65,938,000 (2004: HK$128,706,000) in respect of assets held under finance leases.

Notes to the Financial Statements

For the Year Ended 31 December 2005

19. PREPAID LEASE PAYMENTS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
		(as restated)		(as restated)
The prepaid lease payments comprise:				
Long-term leasehold land in Hong Kong	**6,317**	8,270	**6,317**	6,592
Medium-term leasehold land in Hong Kong	**1,073**	2,502	**–**	–
Long-term leasehold land in the PRC	**277**	299	**–**	–
Medium-term leasehold land in the PRC	**2,898**	2,966	**–**	–
	10,565	14,037	**6,317**	6,592
Analysed for reporting purposes as:				
Current asset	**393**	471	**276**	276
Non-current asset	**10,172**	13,566	**6,041**	6,316
	10,565	14,037	**6,317**	6,592

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
		(as restated)
Unlisted shares, at cost	**26,749**	26,744
Capital contributions	**16,060**	–
Less: impairment loss recognised	**(977)**	–
	41,832	26,744
Advances to subsidiaries	**187,064**	198,287

Notes to the Financial Statements

For the Year Ended 31 December 2005

20. INTERESTS IN SUBSIDIARIES (continued)

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

The advances to subsidiaries are unsecured and non-interest bearing. In the opinion of the Directors, the Company will not demand repayment within one year from the balance sheet date and are therefore considered as non-current. Such interest-free advances are measured at amortised costs determined using the effective interest method at subsequent balance sheet dates. As at 31 December 2005, the effective interest rate used was 6% (2004: 2.5%), being the prevailing market borrowing rate of interest for a similar instrument. The Company has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amounts of the advances as at 1 January 2005 have been decreased by approximately HK$4,836,000 in order to state the advances at amortised costs in accordance with HKAS 39. The Company's cost of investment as at 1 January 2004 has been increased by approximately HK$4,836,000. Loss for the year has been decreased by approximately HK$4,836,000 due to the recognition of imputed interest income.

The Directors of the Company consider that the carrying amounts of advances to subsidiaries as at 31 December 2005 approximate to their fair values.

Details of the Company's principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
3S Technology Holdings Limited 3S科技控股有限公司	Samoa	1 ordinary share of US$1	100	Investment holding
Aberdeen Industrial Company Limited 阿勃玎實業有限公司	Samoa	1 ordinary share of US$1	100*	Manufacture of telephone accessories, power cords and adaptors
Aberdeen Investments Limited 阿勃玎投資有限公司	Samoa	1 ordinary share of US$1	100*	Property investment

Notes to the Financial Statements

For the Year Ended 31 December 2005

20. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Dongguan Dongjiang Wire and Cable Company Limited @ 東莞東江電線電纜有限公司	The PRC	Registered capital HK$6,000,000	60*	Manufacture of telephone cables and wires
Dongguan Santai Electrical Appliances Co., Ltd. ^ 東莞三泰電器有限公司	The PRC	Registered capital HK$48,138,373	100*	Manufacturing and sale of electronic products
Dorup Limited 霖高有限公司	Hong Kong	2,000,000 ordinary shares of HK$1 each	60*	Marketing of telephone cords and power cords
Far East PCB Limited 遠東線路板有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Manufacture of printed circuit boards
Hitech Electro-Optical Limited 華太光電有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Property investment
Hop Cheong Holdings Limited	Cook Islands	3,500 ordinary shares of US$1 each	100	Investment holding
Hop Cheong Technology Limited 合昌科技有限公司	Hong Kong	1,000,000 ordinary shares of HK$1 each	100*	Provision of management services
Hop Cheong Technology (International) Limited 合昌科技(國際)有限公司	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing of high precision metal parts

Notes to the Financial Statements

For the Year Ended 31 December 2005

20. INTERESTS IN SUBSIDIARIES (continued)

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

Notes to the Financial Statements

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20. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Remarkable Mask Technology Company Limited 卓越光掩模科技有限公司	Cayman Islands	33,000,001 ordinary share of US$1	100*	Manufacture of photomask
San Tai Industrial Enterprise Limited	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing and distribution of telephone accessories and power cords
Santai Corporate Services Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Provision of management services
Santai Manufacturing Limited 三泰實業有限公司	Hong Kong	10,000 ordinary shares of HK$1 each	100	Trading of raw materials or the manufacture of telephone accessories and power cords
SCT Electronics Limited SCT 電子有限公司	Hong Kong	2 ordinary shares of HK$1 each	100	Marketing of adaptors and electronic products
SCT International Limited	Hong Kong	2 ordinary shares of HK$1 each	100*	Marketing of raw materials for adaptors and electronic products

Notes to the Financial Statements

For the Year Ended 31 December 2005

20. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company %	Principal activities
Sky Land Navigator Technology Limited	Samoa	1 ordinary share of US$1	100*	Investment holding
Sky Light Communication Limited	Samoa	1 ordinary share of US$1	100*	Investment holding

* Indirectly held through subsidiaries

@ Registered under the laws of the PRC as a Sino-foreign co-operative joint venture

^ Registered under the laws of the PRC as a wholly foreign owned subsidiary

All the subsidiaries operate in Hong Kong except for Aberdeen Industrial Company Limited, Dongguan Dongjiang Wire and Cable Company Limited, Dongguan Santai Electrical Appliances Co., Ltd., Ready Sound Limited and Regal Investments Limited, which operate in the PRC.

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

None of the subsidiaries had issued any debt securities at the end of the year.

21. INVESTMENT IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of unlisted investment in an associate	**18,957**	18,957
Share of post-acquisition profits and reserves, net of dividends received	**27,631**	16,428
	46,588	35,385

At 31 December 2005, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group	Principal activity
天津普林電路股份有限公司 Tianjin Printronics Circuit Corporation ("TPC")	Sino-foreign equity joint venture	The PRC	28.17%	Manufacture of printed circuit boards

The Group's entitlement to share in the profits of the associate is in proportion to its ownership interests. In the opinion of the Directors, the Group is able to exercise significant influence over TPC through participation in the Board of Directors of TPC.

Notes to the Financial Statements

For the Year Ended 31 December 2005

21. INVESTMENT IN AN ASSOCIATE (continued)

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

	2005 HK$'000	2004 HK$'000
Total assets	**322,987**	241,372
Total liabilities	**(157,605)**	(110,264)
Net assets	**165,382**	131,108
Group's share of net assets of an associate	**46,588**	35,385
Revenue	**242,478**	216,262
Profit for the year	**31,755**	36,146
Group's share of result of an associate for the year	**10,493**	10,388

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**42,928**	42,928
Share of post-acquisition profits and reserves, net of dividends received	**143,493**	138,682
	186,421	181,610

At 31 December 2005, the Group had interests in the following jointly controlled entities:

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

According to the joint venture agreement, the Group can only exercise joint control over Sky Light and Sky Land through participation in the Board of Directors. Hence, Sky Light and Sky Land are accounted for as the jointly controlled entities of the Group.

Notes to the Financial Statements

For the Year Ended 31 December 2005

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

	2005 HK$'000	2004 HK$'000
Results		
Revenue	**1,048,856**	773,720
Profit for the year	**35,920**	64,798
Group's share of results of jointly controlled entities for the year	**13,860**	31,028
Financial position		
Current assets	**584,774**	434,131
Non-current assets	**93,440**	104,147
Current liabilities	**(313,287)**	(190,018)
Non-current liabilities	**(306)**	(188)
Net assets	**364,621**	348,072
Group's share of net assets of jointly controlled entities	**186,421**	181,610

23. INVENTORIES

	THE GROUP	
	2005 HK$'000	2004 HK$'000
Raw materials	**48,942**	51,005
Work in progress	**11,364**	13,934
Finished goods	**13,080**	16,739
	73,386	81,678

Notes to the Financial Statements

For the Year Ended 31 December 2005

24. TRADE AND BILLS RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Trade and bills receivables	**198,707**	176,702
Less: accumulated impairment	**(62,354)**	(60,536)
	136,353	116,166

Trading terms with customers are principally on credit, except for new customers, cash on delivery is normally required. Invoices are normally payable within 60 to 90 days of issuance, except for certain well established customers, the terms are extended to 120 days. Each customer has a designated credit limit.

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0 – 90 days	**106,928**	86,305
91 – 180 days	**24,199**	28,204
181 – 365 days	**4,148**	1,557
1 – 2 years	**1,078**	86
Over 2 years	**–**	14
	136,353	116,166

The Directors consider that the fair values of the trade and bills receivables at 31 December 2005 approximate to the corresponding carrying amounts.

25. OTHER RECEIVABLES, OTHER PAYABLES AND ACCRUALS

THE GROUP AND THE COMPANY

The Directors consider that the fair values of other receivables, other payables and accruals as at 31 December 2005 approximate to the corresponding carrying amounts.

Notes to the Financial Statements

For the Year Ended 31 December 2005

26. AMOUNT DUE FROM (TO) AN ASSOCIATE

THE GROUP

The amount is unsecured, non-interest bearing and repayable on demand. Both year balances are aged within three months based on invoice date. The Directors consider that the fair value of the amount due from (to) an associate as at 31 December 2005 is approximate to the corresponding carrying amount.

27. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

THE GROUP

The amount is unsecured, non interest-bearing and repayable on demand. Both years' balances are aged within three months based on invoice date. The Directors consider that the fair value of the amount due from a jointly controlled entity as at 31 December 2005 approximate to the corresponding carrying amount.

28. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non interest-bearing and repayable on demand. The Directors consider that the fair values of the amounts due from (to) subsidiaries as at 31 December 2005 approximate to the corresponding carrying amounts.

29. PLEDGED BANK DEPOSITS

THE GROUP

The amounts represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2004, deposits amounted to approximately HK$17,493,000 had been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits have been released upon the settlement of relevant bank loans during the year.

THE COMPANY

The amounts represent deposits pledged to banks to secure banking facilities granted to the Company. As at 31 December 2004, deposits amounted to approximately HK$15,854,000 had been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits have been released upon the settlement of relevant bank loans during the year.

30. TIME DEPOSITS, BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

The deposits carry interest rate at prevailing bank savings deposits rate. The Directors consider that the fair values of the time deposits, bank balances and cash are approximate to the corresponding carrying amounts.

31. ASSETS CLASSIFIED AS HELD FOR SALE

In August 2005, the Directors resolved to dispose of a property (the "transaction") for a total consideration of HK$38,800,000. The transaction was completed in February 2006. The carrying value of the property as at 31 December 2005 was approximately HK$32,933,000, of which approximately HK$29,100,000 was transferred from investment properties, HK$2,470,000 was transferred from property, plant and equipment and HK$1,363,000 was transferred from prepaid lease payments. The property is included in the "Others" business segment of the Group as set out in note 9(a).

32. TRADE AND BILLS PAYABLES

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0 – 90 days	**54,910**	72,089
91 – 180 days	**6,815**	10,320
181 – 365 days	**153**	775
1 – 2 years	**791**	19
Over 2 years	**–**	2
	62,669	83,205

The Directors consider that the fair values of the trade and bills payables as at 31 December 2005 approximate to the corresponding carrying amounts.

Notes to the Financial Statements

For the Year Ended 31 December 2005

33. AMOUNT DUE TO A RELATED COMPANY

THE GROUP AND THE COMPANY

The balance represents amount due to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang Holding. The amount is unsecured and repayable within one year. Except for amounts of approximately HK$62,263,000 (2004: Nil) and HK$20,000,000 (2004: Nil) which bear interest at 5% and 5.1375% per annum, respectively, the remaining balances are non-interest bearing. The Directors consider that the fair value of the amount due to a related company as at 31 December 2005 approximate to the corresponding carrying amount.

34. AMOUNT DUE TO A SHAREHOLDER

THE GROUP AND THE COMPANY

The amount is unsecured, interest bearing at interest rates ranging from 0.632% to 2% per annum and repayable on demand. The Directors consider that the fair value of the amount due to a shareholder as at 31 December 2005 is approximate to the corresponding carrying amount.

35. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured bank loans	**87,395**	94,098	**77,516**	94,098
Secured trust receipt loans	**18,949**	24,050	**18,949**	15,574
Secured bank overdrafts	**1,940**	–	**999**	–
Unsecured bank overdrafts	**5,783**	–	**5,783**	–
	114,067	118,148	**103,247**	109,672
Carrying amount repayable:				
On demand or within one year	**73,723**	60,324	**62,903**	51,848
More than one year, but not exceeding two years	**20,172**	19,274	**20,172**	19,274
More than two years, but not exceeding five years	**20,172**	38,550	**20,172**	38,550
	114,067	118,148	**103,247**	109,672
Less: Amounts due within one year shown under current liabilities	**(73,723)**	(60,324)	**(62,903)**	(51,848)
	40,344	57,824	**40,344**	57,824

35. BANK BORROWINGS (continued)

All the bank borrowings of the Group and the Company are variable-rate borrowings which carry interest ranging from 3% to 9% per annum (2004: 2% to 5% per annum).

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

	THE GROUP		THE COMPANY	
	USD	YEN	USD	YEN
	'000	'000	'000	'000
At 31 December 2005	1,853	20,082	578	–
At 31 December 2004	839	11,155	839	11,155

During the year, the Group obtained new loans amounting to approximately HK$13,470,000. The loans bear interest at market rates and will be repayable in or before 2008. The Directors consider that the fair values of bank borrowings at 31 December 2005 approximate to the corresponding carrying amounts.

The bank borrowings and banking facilities are secured by:

(i) certain of the investment properties and leasehold land and buildings of the Group which had an aggregate carrying value at the balance sheet date of approximately HK$35,615,000 (2004: HK$26,438,000);

(ii) certain of the machinery of the Group which had an aggregate carrying value at the balance sheet date of approximately HK$99,683,000 (2004: HK$205,446,000);

(iii) the carrying amount of inventories of the Group pledged as security for banking facilities amounted to approximately HK$18,949,000 (2004: HK$24,050,000);

(iv) the carrying amount of accounts receivable of the Group and the Company pledged as security for banking facilities amounted to approximately HK$9,878,000 (2004: Nil);

(v) the pledge of certain of the Group's bank deposits amounting to approximately HK$17,493,000 and for the Company of approximately HK$15,854,000 as at 31 December 2004. The pledged bank deposits are released upon the settlement of relevant bank borrowings during the year.

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36. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machineries under finance leases. The average lease term is three years. For the year ended 31 December 2005, the average effective borrowing rate was ranged from 4.23% to 7.93% (2004: 4.26% to 6.95%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	**37,653**	37,400	**34,686**	32,943
In more than one year but not more than two years	**23,550**	35,736	**22,447**	33,031
In more than two years but not more than three years	**7,001**	21,757	**6,858**	20,720
In more than three years but not more than five years	**–**	6,553	**–**	6,414
	68,204	101,446	**63,991**	93,108
Less: Future finance charges	**(4,213)**	(8,338)	**N/A**	N/A
Present value of lease obligations	**63,991**	93,108	**63,991**	93,108
Less: Amount due for settlement within one year shown under current liabilities			**(34,686)**	(32,943)
			29,305	60,165

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

The Group's finance lease obligations that are denominated in currencies other than the functional currency of a subsidiary entered into these arrangements are USD828,000 (2004: USD1,583,000).

The Directors consider that the fair values of the obligations under finance leases at 31 December 2005 approximate to the corresponding carrying amounts.

37. SHARE CAPITAL

	2005		2004	
	Number of shares	Amount HK$'000	Number of shares	Amount HK$'000
Ordinary shares of HK$0.25 each				
Authorised:				
At beginning and end of year	**2,000,000,000**	**500,000**	2,000,000,000	500,000
Issued and fully paid:				
At beginning of year	**1,199,003,583**	**299,751**	1,193,703,583	298,426
Exercise of share options (Note)	**–**	**–**	5,300,000	1,325
At end of year	**1,199,003,583**	**299,751**	1,199,003,583	299,751

Note: On 9 January 2004 and 23 April 2004, 4,500,000 and 800,000 shares were issued respectively at a share option exercise price of HK$0.58 per share. These new shares rank pari passu in all respects with other shares in issue.

38. SHARE OPTION SCHEME

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

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

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

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38. SHARE OPTION SCHEME (continued)

On acceptance of an offer, HK$1 should be payable by the grantee. The exercise price per share in relation to an option shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the option is offered to an eligible participant or (b) the official average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant; or (c) the nominal value of shares of the Company on the date of offer of option to an eligible participant.

The following tables disclose details and movements in share options under the 2002 Scheme during the years ended 31 December 2005 and 2004:

Category of grantees	Number of shares under options: At 1.1.2005	Transferred from other category during the year	Transferred to other category during the year	Cancelled during the year	At 31.12.2005	Date of grant	Exercise period	Exercise price per share
Directors of the Company	14,242,000	–	–	–	14,242,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	9,243,000	–	(6,043,000)[1]	–	3,200,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	64,212,000[7]	–	(12,040,000)[1]	(52,172,000)[7]	–	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	11,982,000	–	(11,982,000)[2]	–	–	18.03.2004	18.03.2004 – 17.03.2014	HK$1.20
	99,679,000	–	(30,065,000)	(52,172,000)	17,442,000			
Other individuals with options granted in excess of limit	–	6,043,000[1]	–	–	6,043,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	8,026,000	–	–	–	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	16,052,000	12,040,000[1]	–	(28,092,000)[7]	–	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	24,078,000	18,083,000	–	(28,092,000)	14,069,000			

38. SHARE OPTION SCHEME (continued)

Category of grantees	Number of shares under options: At 1.1.2005	Transferred from other category during the year	Transferred to other category during the year	Cancelled during the year	At 31.12.2005	Date of grant	Exercise period	Exercise price per share
Employees of the Group	2,922,000	–	–	–	2,922,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	2,000	–	–	–	2,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	2,924,000	–	–	–	2,924,000			
Other participants	32,104,000	–	–	–	32,104,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	8,026,000	–	–	–	8,026,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	4,000,000	11,982,000 [2]	–	–	15,982,000	18.3.2004	18.3.2004 – 17.3.2014	HK$1.20
	44,130,000	11,982,000	–	–	56,112,000			
	170,811,000	30,065,000	(30,065,000)	(80,264,000)	90,547,000			
Exercisable at the end of the year					90,547,000			

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38. SHARE OPTION SCHEME (continued)

	Number of shares under options									
Category of grantees	At 1.1.2004	Transferred from other category during the year	Transferred to other category during the year	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2004	Date of grant	Exercise period	Exercise price per share
Directors of the Company	34,094,000	–	(16,052,000)[4]	–	(3,800,000)	–	14,242,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	9,243,000	–	–	–	–	–	9,243,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	70,632,000[7]	9,632,000[3]	(16,052,000)[5]	–	–	–	64,212,000[7]	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	-	–	–	11,982,000	–	–	11,982,000	18.03.2004	18.03.2004 – 17.03.2014	HK$1.20
	113,969,000	9,632,000	(32,104,000)	11,982,000	(3,800,000)	–	99,679,000			
Employees of the Group	4,824,000[6]	–	(402,000)[6]	–	(1,500,000)	–	2,922,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	2,000	–	–	–	–	–	2,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	4,826,000	–	(402,000)	–	(1,500,000)	–	2,924,000			
Director of a subsidiary	9,632,000[7]	–	(9,632,000)[3]	–	–	–	–	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
Other participants	24,078,000	16,454,000[4,6]	–	–	–	(402,000)[6]	40,130,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58
	8,026,000	–	–	–	–	–	8,026,000	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495
	–	16,052,000[5]	–	–	–	–	16,052,000[7]	13.10.2003	13.10.2003 – 12.10.2013	HK$0.70
	–	–	–	4,000,000	–	–	4,000,000	18.3.2004	18.3.2004 – 17.3.2014	HK$1.20
	32,104,000	32,506,000	–	4,000,000	–	(402,000)	68,208,000			
	160,531,000	42,138,000	(42,138,000)	15,982,000	(5,300,000)	(402,000)	170,811,000			
Exercisable at the end of the year							130,679,000			

38. SHARE OPTION SCHEME (continued)

Notes:

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

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

3. A Director of a subsidiary was appointed as a Director of the Company on 9 June 2004. The share options granted to such grantee were re-classified from the category of "Director of a subsidiary" to the category of "Directors of the Company" during the year ended 31 December 2004.

4. A Director of the Company resigned on 13 April 2004. The share options granted to such grantee remain exercisable up to the original expiry date and were re-classified from the category of "Directors of the Company" to the category of "Other participants" during the year ended 31 December 2004.

5. A Director of the Company resigned on 9 June 2004. The share options granted to such grantee remain exercisable up to the original respective expiry dates and were re-classified from the category of "Directors of the Company" to the category of "Other participants" during the year ended 31 December 2004.

6. Included in the balance at the beginning of the year ended 31 December 2004 were 802,000 share options held by a grantee who ceased to be an employee of the Company on 28 January 2004. A total of 400,000 share options were exercised by this grantee on 9 January 2004. The balance of 402,000 share options held by this grantee remained exercisable up to 24 December 2004 and was re-classified from the category of "Other employees of the Group" to the category of "Other participants" following her resignation. Such options were lapsed on 25 December 2004.

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

38. SHARE OPTION SCHEME (continued)

Except for (7) above, all other share options are vested at the date of grant.

Total consideration received during the year ended 31 December 2004 for taking up the options granted amounted to HK$2 (2005: Nil).

During the year ended 31 December 2004, 15,982,000 share options were granted on 18 March 2004. No share options were granted by the Company for the year ended 31 December 2005.

The Group recognised the total expense of approximately HK$15,720,000 for the year ended 31 December 2005 (2004: HK$8,774,000) in relation to share options granted by the Company on 13 October 2003 and not yet vested on 1 January 2005. The share options were exercisable subject to a vesting scale which shall commence on the date of grant in tranches of 25% each reaching 100% as at 13 October 2003. During the year ended 31 December 2005, all share options granted on 13 October 2003 have been cancelled.

39. RESERVES

	Share premium account HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000 (Note a)	Share option reserve HK$'000	Deficit HK$'000	Total HK$'000
At 1 January 2004						
– as originally stated	403,879	2,084	53,690	–	(72,872)	386,781
– effect of changes in accounting policies (see Note 4)	–	–	–	1,828	(1,828)	–
– as restated	403,879	2,084	53,690	1,828	(74,700)	386,781
Exercise of share options	1,749	–	–	–	–	1,749
Recognition of equity settled share based payments	–	–	–	8,774	–	8,774
Loss for the year (as restated)	–	–	–	–	(11,918)	(11,918)
At 31 December 2004 (as restated) and 1 January 2005	405,628	2,084	53,690	10,602	(86,618)	385,386
Loss for the year	–	–	–	–	(327,513)	(327,513)
Recognition of equity – settled share based payments	–	–	–	15,720	–	15,720
Cancellation of share options (Note b)	–	–	–	(26,322)	26,322	–
At 31 December 2005	405,628	2,084	53,690	–	(387,809)	73,593

Notes:

(a) By a special resolution passed at an extraordinary general meeting and subsequently approved by the Supreme Court of Hong Kong in 1993, the share premium account of the Company was reduced by an amount of HK$270,000,000. This amount was used to reduce the then Company's deficit of HK$216,310,000 and the balance of HK$53,690,000 was credited to the Company's capital reserve which is non-distributable.

(b) At the balance sheet date, the Company did not have any reserve available for distribution (2004: Nil).

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

40. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
THE GROUP			
At 1 January 2004	2,770	(3,938)	(1,168)
Charge (credit) to income for the year	60,313	(60,735)	(422)
At 31 December 2004 and 1 January 2005	63,083	(64,673)	(1,590)
(Credit) charge to income for the year	(32,713)	34,629	1,916
At 31 December 2005	30,370	(30,044)	326

	Accelerated tax depreciation HK$'000
THE COMPANY	
At 1 January 2004	(2,097)
Charge to income for the year	439
At 31 December 2004 and 1 January 2005	(1,658)
Charge to income for the year	1,658
At 31 December 2005	–

40. DEFERRED TAXATION (continued)

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

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred tax liabilities	**326**	68	**–**	–
Deferred tax assets	**–**	(1,658)	**–**	(1,658)
	326	(1,590)	**–**	(1,658)

At the balance sheet date, the Group had unused tax losses of approximately HK$660,902,000 (2004: HK$580,839,000) available for offset against future profit. A deferred tax asset has been recognised in respect of approximately HK$171,680,000 (2004: HK$369,560,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$489,222,000 (2004: HK$211,279,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

As at the balance sheet date, the Company had unrecognised tax losses amounted to approximately HK$31,674,000 (2004: HK$10,100,000) may be carried forward indefinitely. The deferred tax assets have not been recognised due to the unpredictability of future profit streams.

41. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2005, the Group entered into finance leases in respect of the acquisition of plant and equipment with a total capital value at the inception of the lease of approximately HK$5,000,000 (2004: HK$123,591,000) resulting from a sale and leaseback transaction.

During the year ended 31 December 2003, the Group purchased plant and equipment of approximately HK$405,647,000 of which approximately HK$111,111,000 had not been due under the terms of contract as at 31 December 2003 and was included in "trade and bills payables". The amount had been settled in 2004.

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For the Year Ended 31 December 2005

42. OPERATING LEASES

The Group as lessee

Minimum lease payments paid for land and buildings under operating leases during the year amounted to approximately HK$2,529,000 (2004: HK$1,777,000).

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

	2005 **HK$'000**	2004 HK$'000
Within one year	**1,245**	262
In the second to fifth year inclusive	**3,670**	52
Over five years	**8,706**	–
	13,621	314

The Group leases certain of its warehouse and quarters for directors and staff under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

The Group as lessor

Property rental income earned during the year was approximately HK$1,510,000 (2004: HK$1,444,000), less direct operating expenses of approximately HK$75,000 (2004: HK$66,000).

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The investment properties are expected to generate rental yields of 4% (2004: 5%) on an ongoing basis. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2005 **HK$'000**	2004 HK$'000
Within one year	**219**	506
In the second to fifth years inclusive	**54**	–
	273	506

The Company had no operating lease commitment or arrangement as at 31 December 2005 and 2004.

43. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment contracted for but not provided	**4,217**	278

The Company had no capital commitment at 31 December 2005 and 2004.

44. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Discounted bills with recourse	**–**	10,018	**–**	–
Guarantee for banking facilities granted to a jointly controlled entity	**81,733**	115,592	**81,733**	115,592
Guarantee for banking facilities granted to subsidiaries	**–**	–	**–**	8,477
Guarantee for finance leases granted to a subsidiary	**–**	–	**63,992**	93,108
	81,733	125,610	**145,725**	217,177

Notes to the Financial Statements

For the Year Ended 31 December 2005

45. RETIREMENT BENEFIT SCHEMES

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

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

46. RELATED PARTY TRANSACTIONS

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

	Notes	**2005** HK$'000	2004 HK$'000
Management fees paid to a controlling shareholder	(i)	**960**	960
Management fees paid to a related company	(ii)	**480**	480
Rental paid to a related company	(iii)	**816**	744
Interest expenses paid to a controlling shareholder	(iv)	**370**	–
Interest expenses paid to a related company	(v)	**1,154**	–
Sales to an associate	(vi)	**4,981**	2,060
Sales to a jointly controlled entity	(vii)	**15,144**	13,685
Utility expenses charged to a jointly controlled entity	(viii)	**11,411**	12,212
Purchases from a jointly controlled entity	(ix)	**39,876**	43,121
Purchases from related companies	(x)	**4,154**	4,576
Management fee received from a jointly controlled entity	(xi)	**1,130**	1,560

46. RELATED PARTY TRANSACTIONS (continued)

Notes:

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

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

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

(iv) Interest expenses were paid to Shougang Holdings for the interest-bearing loan advanced to the Group. Details of loan are set out in note 34.

(v) Interest expenses were paid to Shougang (Hong Kong) Finance Company Limited, a subsidiary of Shougang Holding for granting interest-bearing loan advanced to the Group. Details of the loan are set out in Note 33.

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

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

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

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

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

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

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(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	**6,731**	7,382
Post-employment benefits	**257**	161
Share-based payments	**10,324**	7,019
	17,312	14,562

The remuneration of Directors and key executives is determined by the Remuneration Committee of the Company having regard to the performance of individuals and market trends.

47. POST BALANCE SHEET EVENT

Subsequent to 31 December 2005, the Group acquired Sino Stride Technology (Holdings) Limited 中程科技集團有限公司 ("Sino Stride Technology") by voluntary conditional share exchange, with an equity interests of 71.3% in which the Group is able to exercise control in the operation thereof. Sino Stride Technology is listed on the Growth Enterprise Market Board and is engaged in development and integration, sales, service for software and hardware in the intelligent medical & traffic field. However, the Directors of the Company are not yet in a position to determine the financial effect to the Group resulting from the acquisition of this subsidiary.