stride across

2005

Annual Report

SHOUGANG CONCORD CENTURY HOLDINGS LIMITED

Contents

Corporate Information

Board of Directors	*Directors* Cao Zhong *(Chairman)* Li Shaofeng *(Managing Director)* Tong Yihui *(Deputy Managing Director)* Leung Shun Sang, Tony Tang Cornor Kwok Kau *(Deputy Managing Director)* Yip Kin Man, Raymond *(Independent Non-executive Director)* Law, Yui Lun *(Independent Non-executive Director)* Chu, Kwok Tsu Gilbert *(Independent Non-executive Director)*
Audit Committee	Yip Kin Man, Raymond *(Chairman)* Law, Yui Lun Chu, Kwok Tsu Gilbert
Remuneration Committee	Leung Shun Sang, Tony *(Chairman)* Cao Zhong *(Vice Chairman)* Yip Kin Man, Raymond Law, Yui Lun Chu, Kwok Tsu Gilbert
Nomination Committee	Cao Zhong *(Chairman)* Leung Shun Sang, Tony *(Vice Chairman)* Yip Kin Man, Raymond Law, Yui Lun Chu, Kwok Tsu Gilbert
Authorised Representatives	Tang Cornor Kwok Kau Chan Lai Yee
Company Secretary	Chan Lai Yee
Qualified Accountant	Wu Siu Man *CPA, FCCA*

Corporate Information

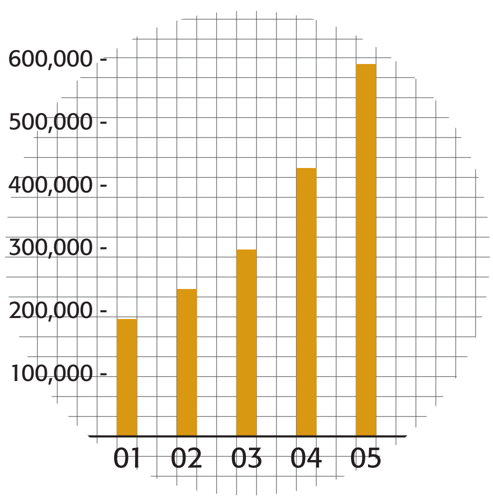
Principal Bankers	Bank of China Dah Sing Bank, Limited DBS Bank (Hong Kong) Limited Hang Seng Bank Limited Industrial and Commercial Bank of China Industrial and Commercial Bank of China (Asia) Limited Shanghai Commercial Bank Ltd. The Bank of East Asia, Limited The Hongkong and Shanghai Banking Corporation Limited Wing Hang Bank, Limited
Auditors	Deloitte Touche Tohmatsu *Certified Public Accountants*
Share Registrars	Tengis Limited 26/F, Tesbury Centre 28 Queen's Road East Hong Kong
Registered Office	5th Floor, Bank of East Asia Harbour View Centre 51-57 Gloucester Road Wanchai Hong Kong
Website	http://www.shougangcentury.com.hk http://www.irasia.com/listco/hk/sccentury/index.htm
HKEx Stock Code	103
Listing Date	9 April 1992

Financial Highlights

	For the year ended 31 December 2005 HK$'000	2004 HK$'000 (Restated)	Change %
Operations			
Turnover	**592,889**	427,864	**+38.6**
Net profit	**62,228**	148,524	**-58.1**
Net profit (excluding non-recurring gain)	**62,228**	85,261	**-27.0**
Earnings per share, basic (cents)	**6.06**	14.57	**-58.4**
Earnings per share, basic (cents) (excluding non-recurring gain)	**6.06**	8.36	**-27.5**
Financial Position			
Total assets	**967,215**	939,780	**+2.9**
Shareholders' funds	**693,753**	634,242	**+9.4**
Return on average equity (%)	**9.4**	24.3	**-61.3**
Return on average equity (excluding non-recurring gain) (%)	**9.4**	14.0	**-32.9**
Net book value per share (HK$)	**0.68**	0.62	**+9.7**

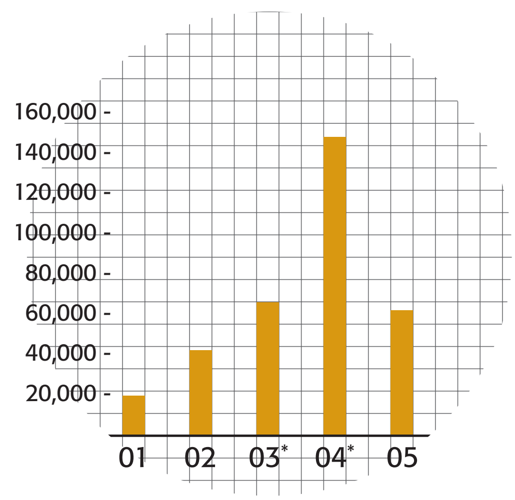
Turnover

(HK$'000)



Net Profit

(HK$'000)



* *(Restated)*

Information for Shareholders

Share Information

Board lot size:	2,000 shares
Shares outstanding as at 31 December 2005:	1,026,066,556 shares
Market capitalization as at 31 December 2005:	HK$379,644,626
Closing stock price as at 31 December 2005:	HK$0.37

Earnings per share (basic) for 2005
Interim: HK3.52 cents
Final: HK6.06 cents

Key Date

Announcement of 2005 Final Results:	20 April 2006
2006 Annual General Meeting:	26 May 2006

Enquire Contact

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Biographical Details of Directors

Mr. Cao Zhong, aged 46, graduated from Zhejiang University, The People's Republic of China (the "PRC") and Graduate School, The Chinese Academy of Social Sciences with a Bachelor Degree in Engineering and a Master Degree in Economics. Mr. Cao was appointed the Chairman of each of the Company and Shougang Concord Technology Holdings Limited ("Shougang Technology"), the Deputy Chairman and General Manager of Shougang Holding (Hong Kong) Limited ("Shougang HK"), the substantial shareholder of the Company, the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International"), another substantial shareholder of the Company in November 2001. He was also appointed a Director of Shougang Concord Grand (Group) Limited ("Shougang Grand") in November 2001 and is currently the Vice Chairman and Managing Director of Shougang Grand. He was appointed a Non-executive Director and the Joint Chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of Shougang Grand, in February 2005 and was re-designated as Chairman and Non-executive Director of GDC in February 2006. He also acts as the Assistant General Manager of Shougang Corporation, the holding company of Shougang HK, and the Chairman of China Shougang International Trade and Engineering Corporation. In addition to the above, he also serves as the Chairman of the Nomination Committee and the Vice-Chairman of the Remuneration Committee of the Company. Mr. Cao has extensive experience in corporate management and operation.

Mr. Li Shaofeng, aged 39. Mr. Li holds a Bachelor Degree in Automation from University of Science and Technology Beijing. He joined Shougang Corporation in 1989. Mr. Li joined the Group in March 2000 and was appointed as Deputy Managing Director of the Company. He was appointed as the Managing Director of the Company in September 2003. Prior to joining the Group, Mr. Li had held the position of Deputy General Manager in Beijing Shougang Hotel Development Company. He has extensive experience in management of steel industry, sino-foreign joint ventures and property development.

Mr. Tong Yihui, aged 57, is a Senior Engineer. Mr. Tong graduated from Yan Shan University in the PRC. Mr. Tong joined the Group in 1998 and serves as the Deputy Managing Director of the Company. Prior to joining the Group, Mr. Tong had held the positions in Shougang Posheng Strip Steel Company Limited, Shenzhen Guan Shen Enterprise Company Limited, Jiaxing Eastern Steel Cord Co., Ltd. and Shougang Machinery Design & Research Institute.

Mr. Leung Shun Sang, Tony, aged 63, was appointed a Director of the Company in 1995. He is also a Director of Shougang International, Shougang Technology and Shougang Grand and a Non-executive Director of GDC. He also serves as the Vice-Chairman of the Nomination Committee and the Chairman of the Remuneration Committee of the Company. Mr. Leung holds a Master Degree in Business Administration from New York State University and has over 30 years' experience in finance, investment and corporate management. He is the Managing Director of CEF Group.

Biographical Details of Directors

Mr. Tang Cornor Kwok Kau, aged 45. Mr. Tang joined the Group in 1998 and was appointed as the Deputy Managing Director of the Company in March 2000. He holds a Bachelor Degree and a Master Degree in Business Administration from York University in Canada. Prior to joining the Group, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years of experience in corporate and investment banking.

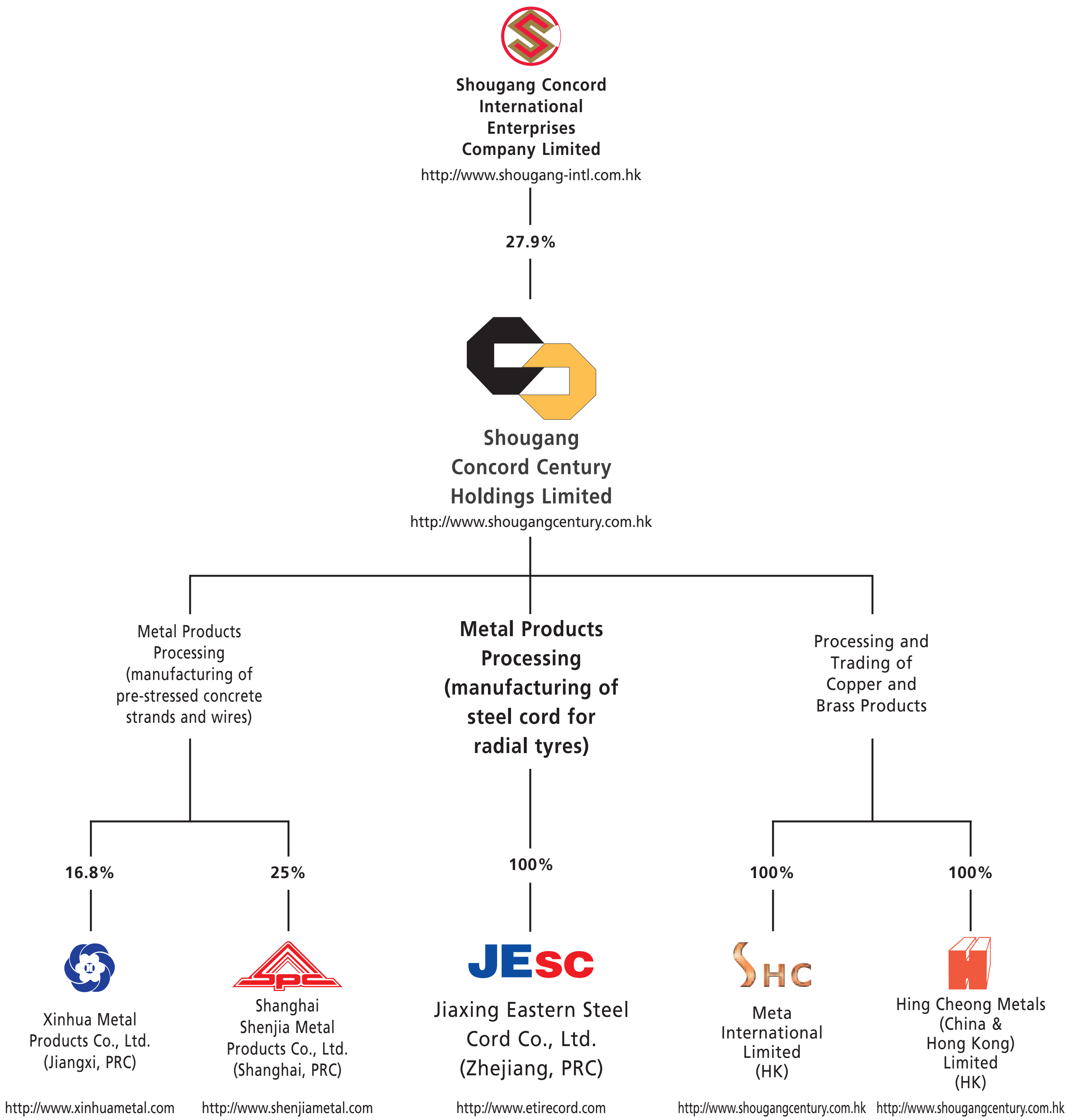
Mr. Yip Kin Man, Raymond, aged 59. Mr. Yip was appointed an Independent Non-executive Director of the Company in 1993. He also serves as the Chairman of the Audit Committee, a member of each of the Nomination Committee and the Remuneration Committee of the Company. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC.

Mr. Law, Yui Lun, aged 44. Mr. Law is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). He is also an associate member of each of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom respectively. Mr. Law holds a Master Degree in Business Administration from Oklahoma City University (USA). He was appointed as the Independent Non-executive Director and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company in April 2005. At present, Mr. Law is the sole proprietor of a Certified Public Accountants firm in Hong Kong. In addition, he is the Managing Director of two Certified Public Accountants companies. Prior to setting up his own practice, Mr. Law had worked for the Audit Department of KPMG and the China Division of the Hong Kong office of Ernst & Young for a total of 8 years. He had also been a partner in a medium-sized local accounting firm in Hong Kong for over 3 years. In all, Mr. Law has over 21 years' professional experience in the fields of auditing, accounting, corporate taxation, company liquidation and insolvency, financial advisory and management.

Mr. Chu, Kwok Tsu Gilbert, aged 49, has been a committee member of The Institute of Securities Dealers Limited since 1999. Mr. Chu attained his Bachelor of Science in Industrial Engineering (Minor in Electrical Engineering) and Master of Business Administration in Marketing from University of California, Berkeley in 1977 and 1978 respectively. He was appointed as the Independent Non-executive Director and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company on 30 September 2005. Mr. Chu has extensive experience in the finance field and securities investment for over 20 years. He had been responsible for equity investments in various Pacific regions covering Hong Kong, Japan, South Korea, Philippines, Thailand, Malaysia, Singapore, Indonesia, Australia and New Zealand and had managed investment portfolios for institutional clients. Prior to joining the Company, Mr. Chu had held senior positions in various well-known securities and fund management firms. In addition to his extensive experience in equity investments, Mr. Chu had also been the general manager of a private bio-technology venture in Hong Kong.

Main Operational Structure

As at 20 April 2006



Chairman's Statement

Dear Shareholders,

Business Performance

2005 was a difficult year for the Group as market competition accelerated and raw material prices remained at high level, which discernibly increased our cost of production during the year under review. The profit of our Group for the year under review amounted to HK$62,228,000, representing a decrease of 58.1% when compared with the corresponding profit of HK$148,524,000 (restated) for the year ended 31 December 2004. When we excluded the net one-off gain (from realization of negative goodwill and exchange loss on translation reserve) of HK$63,263,000 arising from disposal of subsidiaries and jointly controlled entities (the non-core businesses) from which we had ceased the operation in previous years, the profit was HK$85,261,000 for the year of 2004. As a result, the current year's profit would represent a drop of 27.0% over that of the year of 2004. During the year under review, gross profit margin was 16.2%, as compared to 26.3% for the previous year. On the other hand, the turnover of the Group rose by 38.6% to HK$592,889,000 for the year ended 31 December 2005, ascribed to the enlargement of production capacity and increasing demand of our steel cord, the core business of our Group.

Looking Ahead

It is expected that 2006 will still be a challenging year for the Group since we have to face intensive competition in our operating environment and raw material prices remain at high level, in particular in our core business of the steel cord manufacturing industry. It is foreseeable that there are more competitors using their aggressive strategy to penetrate the market. In respect of copper segment, we also have to resist the fluctuation of the metal prices which will affect demand for copper products.

Nevertheless, we have initiated a series of action in response to these challenges, for instance, localization of raw material procurement to contain production costs, improving operating efficiency, developing new products and diversifying customer base to improve our profit margin. Moreover, we remain optimistic on the long-term growth prospect of our steel cord and copper consumption in the People's Republic of China in view of:

1. rapid growth in the economy of China and the continuous increasing demand for automobiles, the improvement in roads quality and expressway network will benefit further development of automobile industry;

2. the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai will continue to imbue the development of the transportation and infrastructure industries;

Chairman's Statement

Looking Ahead (continued)

3. overall utilization of radial tyres was below 60% in 2005 and the radialisation rate of trucks and buses are only at 42%, which represents an enormous room for growth in the radial tyres' market in China; and

4. China is the largest copper consumption market in the world and is expected to insatiable appetite for the metal.

In consideration of the above positive factors, the expansion of production capacity of steel cord to 45,000 tonnes per annum and the construction of a new plant for copper segment catering for domestic PRC customers, both are under the way.

Further, we have seen a stabilization and a sign of falling back in raw material prices. The recent meeting of the National People's Congress has promulgated the Eleventh Five-year Plan. In which, the Central Government has approved the construction of a series of infrastructure projects including the Beijing-Shanghai High Speed Railway. The construction of which will create profused demand for pre-concrete steel wire, a principal product of our jointly controlled entity and associate.

We believe that through our persistent efforts, we can provide satisfactory return to our shareholders in the foreseeable future.

Dividends

To share our fruitful results with and create substantial value to our shareholders is our business main goal; however in consideration of the financial need for further expansion, the board of directors (the "Board") does not recommend the payment of final dividend for the financial year of 2005.

Acknowledgements

On behalf of the Board, we wish to thank all our customers, suppliers, bankers and shareholders for their continuous support. We would also like to thank our team of dedicated staff for their invaluable service and contribution throughout the year.

By Order of the Board

Cao Zhong
Chairman

Hong Kong
20 April 2006

Management Discussion and Analysis

BUSINESS REVIEW

The market demand of our core product, steel cord for use in radial tyres continued to expand in 2005, coupled with our enlarged production capacity, the Group was able to achieve 38.6% growth in turnover as compared to the previous year. However, the skyrocketing raw material prices and increased market competition had dented the gross profit margin of Jiaxing Eastern Steel Cord Co., Ltd. ("Jiaxing Eastern"), our principal subsidiary engaged in the manufacturing of steel cord. Besides, our copper processing and trading business was also affected by the soaring copper price which curbed the demand for copper products from our customers during the year under review.

On the other hand, the Group's jointly controlled entity and associate engaged in the business of manufacturing of pre-stressed concrete strands and wires had benefited from the rising steel price and achieved double-digit growth in profit for the current year.

Manufacturing of steel cord for radial tyres ("Steel cord")

The expansion of the automobile market and the transportation network in the People's Republic of China (the "PRC") persisted in 2005. Total production of motor vehicles amounted to approximately 5,700,000 units in the current year, up by 12.1% over the previous year. (Source: National Bureau of Statistics of China). On the other hand, approximately 6,700 kilometers of freeways were added to the freeway network of the PRC in 2005. These had driven the growing needs of radial tyres and hence, steel cord during the current year.

Our steel cord segment achieved a growth in turnover of 54.7% over the previous year to HK$411,865,000. However, faced with pricing pressures from increasing competition and escalating import raw material prices, gross profit dropped by 14.4% to HK$81,746,000. The management had considered various hedging methods to curb the impact of rising import raw material costs. However, there did not appear to have an instrument which possessed sufficient correlation and acceptable risks available in the market. As such, the management reverted to placing more orders with domestic suppliers in the PRC whose prices were relatively lower than their import counterparts in 2005. As a result of the rising raw material prices, the cost of major raw material for the manufacturing of steel cord increased by 46.7% over the previous year, whereas the selling prices of steel cord was lowered as new entrants adopted aggressive strategy to penetrate the market. These factors caused the gross profit margin dropped to 19.8%, as compared to 35.8% in the previous year.

The decreased gross profit had caused the profit of this segment dropping by 7.2% to HK$77,095,000 (2004: HK$83,060,000) for the current year.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Processing and trading of copper and brass products ("Copper & brass products")

International copper price climbed significantly during the year ended 31 December 2005, 3-month copper price traded in the London Metals Exchange reached to approximately US$4,500 per tonne, rose by approximately 50% as compared to 31 December 2004. Such rampant rise in copper price suppressed the demand for copper products from our customers, which caused sales volume dropping by 11.3% to approximately 5,130 tonnes for the current year. However, attributable to the rising copper price, turnover of this segment slightly increased by 3.1% to HK$164,620,000.

Gross profit for the current year amounted to HK$12,471,000, lowered by 24.8% as compared to HK$16,580,000 for the previous year, while gross profit margin was 7.6%, as compared to 10.4% for the previous year. The exceptional performance in 2004 was attributable to the stockpiling of inventories at a relatively low price in late 2003. We believed that it was a one-off phenomenon and hence adopted a conservative approach in ordering our copper inventory. The increase in copper prices was not ephemeral in 2005. The conservative approach had somewhat sheltered us from the fluctuation of copper prices but it also rendered us a lower and yet a sustainable gross profit margin. Because of the lowered gross profit, profit of this segment dropped by 40.7% to HK$6,044,000 (2004: HK$10,196,000) for the current year.

FINANCIAL REVIEW

Profit of the Group for the current year amounted to HK$62,228,000, a drop of 58.1% as compared to the previous year. However, previous year's profit of HK$148,524,000 (restated) included net gain of HK$63,263,000 (being the realization of HK$82,041,000 of negative goodwill and HK$18,778,000 of exchange loss in translation reserve) arising from the disposals of subsidiaries and interest in a jointly controlled entity. When such non-recurring gain was excluded, profit for the previous year would be HK$85,261,000, and the current year's profit would represent a decrease of 27.0% over the previous year.

FINANCIAL REVIEW (continued)

Turnover

Turnover of the Group for the current year amounted to HK$592,889,000, representing an increase of 38.6% over the previous year. The breakdown of turnover by business segments is as follows:

	2005 HK$'000	**% of total turnover**	2004 HK$'000	% of total turnover	**% change**
Steel cord	**411,865**	**69.4**	266,262	62.2	**+54.7**
Copper & brass products	**164,620**	**27.8**	159,674	37.3	**+3.1**
Others	**16,404**	**2.8**	1,928	0.5	**+750.8**
Total	**592,889**	**100.0**	427,864	100.0	**+38.6**

Gross profit

The Group's gross profit lowered by 14.9% to HK$95,855,000, while gross profit margin dropped from 26.3% in the previous year to 16.2% in the current year, the breakdown is as follows:

	2005 HK$'000	**Gross profit %**	2004 HK$'000	Gross profit %	**% change**
Steel cord	**81,746**	**19.8**	95,451	35.8	**-14.4**
Copper & brass products	**12,471**	**7.6**	16,580	10.4	**-24.8**
Others	**1,638**	**10.0**	618	32.1	**+165.0**
Total	**95,855**	**16.2**	112,649	26.3	**-14.9**

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Other operating income

The Group's other operating income for the current year amounted to HK$8,328,000, an increase of 44.6% over the previous year. Current year's other operating income included a net exchange gain of HK$4,575,000, primarily as a result of the appreciation of Renminbi ("RMB") by 2% against United States Dollars ("USD") in July 2005.

Administrative expenses

The current year's administrative expenses amounted to HK$33,556,000, an increase of 13.1% over the previous year. The rise in administrative expenses was largely because of the expansion of the Group's business that increased overall costs. However, administrative expenses as a percentage of turnover further dropped from 6.9% in the previous year to 5.7% in the current year.

Segment results

Attributable to the drop in gross profit, profit from the Group's business segments lowered by 17.3% to HK$68,796,000 for the current year. The breakdown is as follows:

	2005	2004	
	HK$'000	HK$'000	**% change**
Steel cord	**77,095**	83,060	**-7.2**
Copper & brass products	**6,044**	10,196	**-40.7**
Corporate and others	**(14,343)**	(10,079)	**+42.3**
	68,796	83,177	**-17.3**

FINANCIAL REVIEW (continued)

Finance costs

The Group's finance costs increased by 224.2% to HK$14,468,000 for the current year. The increase was principally attributable to (i) the interest rate hikes since the first half of 2005 which had pushed Hong Kong Dollar ("HKD") and USD interbank rates from circa 1% level to the level of 4% at the end of 2005, represented a rise of almost three times over the previous year; and (ii) increased short term bank borrowings to fulfill the cashflow needs from expanded production capacity and soaring raw material prices.

Share of results of jointly controlled entities and an associate

The Group's jointly controlled entity and associate engaged in the manufacturing of pre-stressed concrete strands and wires were able to take advantage of the rising steel price and achieved satisfactory growth in profit for the current year.

Turnover of Shanghai Shenjia Metal Products Co., Ltd. ("Shanghai Shenjia") remained similar to that of the previous year, at HK$465,519,000. Contributed by the improvement in gross profit margin from rising selling price, its profit for the year rose by 35.0% to HK$36,532,000. As such, the Group's share of the profit for the year of Shanghai Shenjia also increased proportionally to HK$9,133,000.

Turnover of Xinhua Metal Products Co., Ltd. ("Xinhua Metal") increased by 10.7% to HK$785,576,000, while its profit for the year increased by 24.1% to HK$28,542,000. The Group's share of the profit for the year of Xinhua Metal also increased proportionally to HK$4,781,000.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Bank balances and cash (including pledged bank deposits) of the Group as at 31 December 2005 amounted to HK$40,378,000, an increase of 8.4% as compared to HK$37,255,000 as at 31 December 2004. During the current year, the Group generated HK$51,640,000 of net cash inflow from its operating activities, and received dividend of HK$9,059,000 from its jointly controlled entity and associate.

The Group repaid net bank borrowings of HK$34,247,000 during the year, thereby reduced the bank borrowings from HK$279,653,000 as at 31 December 2004 to HK$243,013,000 as at 31 December 2005. The Group's bank borrowings include HK$105,150,000 fixed-rate borrowings which carry interest ranging from 1.71% to 5.90% per annum. The remaining bank loans are variable-rate borrowings. Their nature and maturity profile are as follows:

	HK$'000
Due within one year or on demand	
– Trust receipt loans	79,592
– Short term bank loan and current portion of medium term loan	120,823
Subtotal	200,415
Due in the second year	
– Non-current portion of medium term loan	42,598
Total	243,013

Because of the decreased bank borrowings, gearing ratio (total bank borrowings less bank balances and cash / shareholders' equity) of the Group dropped from 38.2% at 31 December 2004 to 29.2% at 31 December 2005. While the Group's current ratio at 31 December 2005 remained the level similar to the previous year at 1.54 times (31 December 2004: 1.55 times).

Management Discussion and Analysis

FOREIGN CURRENCY AND INTEREST RATE EXPOSURES

The Group's source of revenue is principally denominated in RMB and HKD, while bank borrowings as at 31 December 2005 are in HKD and USD, with the composition of approximately 38.2% (31 December 2004: 31.5%) denominated in HKD and 61.8% (31 December 2004: 68.5%) denominated in USD.

When considering the currency composition of bank borrowings, we will take into account factors such as the interest rate differentials between RMB, HKD and USD, and the exchange rate movement between these currencies, with the view to save interest costs and shelter us from significant exchange rate fluctuations. For the current year, the Group adopted the strategy to borrow in HKD and USD as opposed to RMB because their interest rates remained lower than RMB and the stronger exchange rate of RMB against USD. This strategy brought positive impact to the Group's earnings following the appreciation of RMB arising from the People's Bank of China's announcement on 21 July 2005 to move the exchange rate regime of RMB into a managed floating exchange rate regime. As a result of the RMB appreciation, not only the amount of USD borrowings had been reduced when converted into RMB, the Group can also benefit from reduced interest expenses and import raw material costs. Notwithstanding, we will keep monitoring the currency composition of our bank borrowings and will take appropriate action to minimize our exchange and interest rate risk when needed.

In consideration of the upturning interest rate cycle, the Group had executed structured interest rate swaps to hedge against part of the floating rate exposure. As at 31 December 2005, approximately 41.2% of total bank borrowings had been hedged.

BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS

Manufacturing of steel cord for radial tyres

The plan to expand the production capacity of Jiaxing Eastern from existing 30,000 tonnes to 45,000 tonnes per annum by the second half of 2007 is under way. Total costs of the expansion is adjusted to be approximately HK$250,000,000 – HK$300,000,000 (excluding working capital requirement) and will be financed by the Group's internal resources and bank loans.

Processing and trading of copper and brass products

As mentioned in our 2004 annual report, we will incur capital expenditure of approximately HK$4,000,000 to establish an additional production plant in the PRC for domestic sales of copper and brass products in the PRC. The development is in progress but the commencement of operation is postponed to be in the fourth quarter of 2006 due to the profuse volatility of copper prices. The capital expenditure will be financed by internal resources of the Group.

Management Discussion and Analysis

EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEME OF THE GROUP

At 31 December 2005, the Group had a total of 695 employees located in Hong Kong and the PRC. The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition. Remuneration packages, which include an element of discretionary bonuses, are generally reviewed annually. In addition to salary payments, other employee benefits include medical subsidies, hospitalization scheme and a defined contribution provident fund, Mandatory Provident Fund Scheme and other retirement scheme or other similar defined contribution provident fund stipulated by the State Regulations of the PRC which provided retirement benefits to employees in Hong Kong and the PRC respectively. The Group's contributions to these schemes are charged against profits as they are incurred. The amount charged to the consolidated income statement for the current year amounted to HK$1,652,000. The Group had also provided training programme or course for the mainland staff at all levels from different departments so as to further enhance their technical skills in production operation. On the other hand, the emoluments of the directors of the Company are decided by the Remuneration Committee of the Company, having regard to individual performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

In addition, the Group had adopted a share option scheme (the "Scheme"). Under the Scheme, the board of directors of the Company (the "Board") shall, subject to and in accordance with the provisions of the Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), grant share options to any eligible participant to subscribe for shares in the capital of the Company for the purpose of providing incentives or rewards to him/her for contribution to the Group. The Scheme will remain in force for a period of ten years from the date of its adoption. No share options were granted or exercised during the current year.

Management Discussion and Analysis

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, the following assets had been pledged to the Group's bankers for banking facilities granted to the Group:

1. Leasehold land and buildings and investment properties with an aggregate net book value of HK$45,066,000;

2. Prepaid lease payments amounting to HK$8,084,000;

3. Plant and machinery with net book value of HK$136,956,000;

4. 100% equity interests in Everwinner Investments Limited, Online Investments Limited and Jiaxing Eastern; and

5. Bank deposits amounting to HK$3,000,000.

Further, the Group had also executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These corporate guarantees are provided in proportion to the Group's interest in the jointly controlled entity and are renewable on an annual basis. The amount of guarantees granted as at 31 December 2005 amounted to approximately HK$10,935,000.

BUSINESS OUTLOOK

The PRC has overtaken the United Kingdom as the fourth biggest economy in 2005, its economy grew by 9.9% in 2005 and we expect such strong growth to persist in the coming future. Furthermore, one of the tasks of the Eleventh Five-year Plan (Year 2006 – 2010) as promulgated by the Central Government is to enlarge domestic demand as a way to counterbalance the inclination of economic growth to foreign trade and fixed assets investments, and to maintain a stable and yet speedy growing economy.

We believe such policy will bring positive impact to the Group's businesses in the longer term, and we are committed to expand the production capacity of our steel cord and copper businesses, as mentioned in "**BUSINESS DEVELOPMENT PLAN AND CAPITAL COMMITMENTS**" section above, to tap the growing demand of these products in the PRC.

Management Discussion and Analysis

BUSINESS OUTLOOK (continued)

Looking forward in 2006, certain raw material prices have dropped from their peak levels since the end of 2005. This should help to alleviate the pressure on our costs and hence, can improve our gross profit margin. However, the competition on steel cord industry remains intense and pricing pressure will persist. Notwithstanding, we will strive to enhance our profit margin by way of cost control and improvement of operating efficiency. Furthermore, we will continue to invest in our product and technological developments and broaden our customer base both domestic and abroad. In conclusion, owing to the aforesaid factors, we are confident to improve our profitability and deliver satisfactory return to our shareholders in 2006.

Corporate Governance Report

In November 2004, the Stock Exchange of Hong Kong Limited (the "Stock Exchange") issued its "Code on Corporate Governance Practices and Corporate Governance Report" (the "Stock Exchange Code"), with a grace period such that it would take effect for accounting periods commencing on or after 1 January 2005. The Stock Exchange Code sets out principles of good corporate governance and two levels of recommendation, namely:

- Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and

- Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply or give reasons for deviation.

The Stock Exchange has allowed issuers to devise their own codes on corporate governance practices on such terms as they may consider appropriate and provide reasons given for any deviation from the Stock Exchange Code.

During the financial year of 2005, the board of directors (the "Board") of Shougang Concord Century Holdings Limited (the "Company") approved and adopted a "Shougang Concord Century Holdings Limited Code on Corporate Governance" (the "SCCH Code") on terms no less exacting than those set out in the Code Provisions of the Stock Exchange Code – Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board from time to time has assumed responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs. It also has fiduciary duties to act in the best interest of the Company as a whole. In this connection, the Company always attaches great importance to the excellence, soundness and reasonableness of its corporate governance structure. The Board and management will endeavor to establish a set of internal code of corporate governance in compliance with and excelling the regulations set by the regulatory authorities in Hong Kong.

In order to indicate the commitment of the Board and management to comply with the corporate governance standard, the SCCH code is formulated, and every effort will be made to comply with the principles and practices contained herein in order to protect and enhance the benefits of shareholders. Following sustained development and growth of the Company, we will continue to monitor and revise the Company's governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders.

Corporate Governance Report

In the opinion of the Board, the Company has complied with the Stock Exchange Code since 1 January 2005 meanwhile, complied with the SCCH code, except that (i) the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's articles of association (the "Articles"); and (ii) not every director is subject to retirement by rotation at least once every three years. The reason for the first deviation is stated hereunder the heading of "Independent Non-executive Directors" and for the second deviation, it had been rectified by obtaining the shareholders' approval of amending the Articles at the annual general meeting held on 13 June 2005.

DIRECTORS' SECURITIES TRANSACTION

On 6 April 2004, the Company adopted its own Code of Conduct regarding Directors' Securities Transactions (the "Code") and the terms of the Company's Code of Conduct regarding Directors' Securities Transactions are no less exacting than the required standard set out in the Model Code – Appendix 10 of Listing Rules ("Model Code") and refined the Code on 4 April 2005. Having made specific enquiry of all directors whether they have complied with the required standard set out in the Model Code, none of the directors of the Company is aware of any information that would reasonably indicate that the directors of the Company or any of its directors is not or was not in compliance with the Model Code and the Code during the financial year of 2005.

THE BOARD

The Board is authorised by the shareholders of the Company in promoting the success of the Company by directing and supervising its affairs in an accountable, responsible and effective manner. Each director has a duty to act in good faith, in the best interests of the Company and properly complies with relevant ordinances, rules and regulations. The directors are aware of their collective and individual responsibilities to all shareholders of the Company for the manner in which the affairs of the Company are managed, controlled and operated to maximize the shareholders' investment return and the Company's long-terms value. Members of the Board should try their best to avoid actual or potential conflict of interests.

The types of decisions which are to be taken by the Board include those relating to:

- Directing the strategies of the Company;
- Setting up objectives of management;
- Monitoring the performance of management;
- Ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed;
- Reviewing and approving the Company's results and operations to be disclosed on a regular basis to the public; and
- Approving the Group's operating strategies, budget and strategies in collaboration with various jurisdictions enterprises, as well as other major investments, application of funds and other substantial exercises with other enterprises.

Corporate Governance Report

During the financial year and at present, the Board comprises eight directors. Details of all directors, including the Chairman, Managing Director, Deputy Managing Directors, Independent Non-executive Directors are given on pages 6 to 7 of this annual report.

Details of directors' attendance at formal meetings (including the annual general meeting, board meetings and board committee meetings) and other informal meetings held in 2005 are set out in the following table:

	Formal Meetings								Informal Meetings				Percentage of Average Attendance for an Individual
	Date of Board Meetings		Date of Audit Committee Meetings			Date of Annual General Meeting	Number of Formal Meetings	Percentage of Formal Meetings Attendance	Date of Budget Meeting	Date of Business Meeting	Number of Informal Meetings	Percentage of Informal Meetings Attendance	
Name of Director	18/4/2005	14/9/2005	8/4/2005	22/4/2005	5/9/2005	13/6/2005			21/1/2005	15-16/7/2005			
Cao Zhong	Y	Y	N/A	N/A	N/A	Y	3	100	N	N/A	1	0	75
Li Shaofeng	Y	Y	N/A	N/A	N/A	Y	3	100	Y	N/A	1	100	100
Tong Yihui	N	Y	N/A	N/A	N/A	Y	3	67	Y	Y	2	100	80
Leung Shun Sang, Tony	Y	Y	N/A	N/A	N/A	Y	3	100	N/A	Y	1	100	100
Tang Cornor Kwok Kau	Y	Y	N/A	Y	Y	Y	5	100	Y	N/A	1	100	100
Yip Kin Man, Raymond	Y	Y	Y	Y	Y	Y	6	100	N/A	Y	1	100	100
Chen, Kelvin Siu Min (retired on 13/6/2005)	Y	N/A	Y*1	N	N/A	N	4	50	N/A	N/A	N/A	N/A	50
Hui, Hung Stephen	Y	Y	Y	Y	Y	Y	6	100	N/A	Y	1	100	100
Law, Yui Lun (appointed on 18/4/2005)	N/A	Y	N/A	Y	Y	Y	4	100	N/A	Y	1	100	100
The average attendance rate of formal meetings, informal meetings for an individual during the financial year								91				78	89

Notes:

1. Mr. Chen, Kelvin Siu Min attended the meeting by way of telephone conference.
2. Mr. Chu, Kwok Tsu Gilbert was appointed as director of the Company on 30 September 2005 and had not attended any formal meeting or any other meeting during the year of 2005.

Y = Attend   N = Not attend   N/A = Not applicable

Corporate Governance Report

CHAIRMAN AND MANAGING DIRECTOR

The positions and roles of the Chairman are separated from that of the Managing Director and have been clearly set out in writing. The Chairman, Mr. Cao Zhong, is responsible for formulating the overall strategies and policies of the Company. The Managing Director, Mr. Li Shaofeng, supported by the board committees and the senior management, is authorized by the Board to manage the day-to-day business operations of the Company in accordance with objectives and targets set by the Board and the Company's internal control policies and procedures.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has appointed three independent non-executive directors (including one with appropriate professional qualifications, or accounting or related financial management expertise, details of their biography were set out in this annual report), which representing more than one-third of the Board). As such, we have of sufficient caliber and number for views to carry weight. However, they are not appointed for a specific term according to the Code Provision A.4.1 of the Stock Exchange Code ("Code Provision A.4.1"). They are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles. The reason for the deviation of Code Provision A.4.1 is because we believe that the retirement and re-election requirements of non-executive directors have given the Company's shareholders the right to approve continuation of non-executive directors' offices. However, the Company shall take relevant measures towards compliance with this Code Provision, if appropriate.

The Company has received annual confirmation of independence from the three independent non-executive directors (the "INEDs") in accordance with Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

BOARD COMMITTEES

Remuneration Committee

The Company established the Remuneration Committee on 4 April 2005. Members of such Committee comprise five directors with a majority of INEDs. They are:–

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice-Chairman)*
Yip Kin Man, Raymond *(INED)*
Law, Yui Lun *(INED)*
Chu, Kwok Tsu Gilbert *(INED)*

Corporate Governance Report

and the terms of reference are summarized as follows:–

i) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

ii) to have the delegated responsibility to determine the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

iii) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

iv) to review and approve the compensation payable to executive directors in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

v) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

vi) to ensure that no director or any of his associates is involved in deciding his own remuneration;

vii) to exercise such other powers, authorities and discretion, and perform such other duties, of the directors in relation to the remuneration as the Board may from time to time delegate to it, having regard to the Stock Exchange Code; and

viii) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 13.68 of the Listing Rules amended from time to time.

Corporate Governance Report

There was no Remuneration Committee Meeting held for the financial year ended 31 December 2005. The reason of such deviation is that there were changes in committee members during the financial year and the schedules for members were tight to have a meeting held in person. Further, there is no prominent or impending resolution in relation to the policy of remuneration of the Company needed to be discussed. However, the Remuneration Committee held a meeting on 3 March 2006. The Remuneration Committee Members decided to nominate an expert/consultant/adviser to review the existing policy for the remuneration of the directors and its composition and structure as well as the magnitude of the disclosure of the directors' remuneration in the annual report.

The information in respect of emolument policy of the Group is set out in the Report of the Directors.

Nomination Committee

The Company established the Nomination Committee on 4 April 2005. Members of such Committee comprise five directors with a majority of INEDs. They are:–

Cao Zhong *(Chairman)*
Leung Shun Sang, Tony *(Vice-Chairman)*
Yip Kin Man, Raymond *(INED)*
Law, Yui Lun *(INED)*
Chu, Kwok Tsu Gilbert *(INED)*

and the terms of reference are summarized as follows:–

i) To review and monitor the structure, size and composition of the Board and make recommendations to the Board with particular regard to ensuring a substantial majority of the directors on the Board being independent of management;

ii) To identify and or nominate and then select qualified individuals for appointment as additional directors other than the Chairman and Managing Director or Chief Executive Director or to fill Board vacancies as and when they arise. Such appointment is subject to the approval of the Board; and

iii) The Committee shall make a statement or report to the Board after each meeting about its activities, the process used for appointments and explain if external advice has been used and disclose and publish in the annual report or other report as required subject to the Listing Rules amended from time to time.

Corporate Governance Report

During the financial year ended 31 December 2005, Messrs. Law, Yui Lun and Chu, Kwok Tsu Gilbert were appointed as directors of the Company on 18 April 2005 and 30 September 2005 respectively. For the nomination procedures and criteria, the Nomination Committee had reviewed the profile of certain candidates and then conducted the interview with them. After careful consideration, the Nomination Committee would nominate the right candidate to the Board for further consideration of their appointment.

In the opinion of the Nomination Committee, as no impending actions should be taken to change the existing composition and structure of the Nomination Committee, there was no such kind of meeting being held during the financial year ended 31 December 2005. However, the Company shall try its best to hold at least a meeting for each financial year.

Audit Committee

The Company established the Audit Committee on 30 December 1998. At present, members of such Committee comprise three directors and all of them are INEDs.
They are:–

Yip Kin Man, Raymond *(Chairman)*
Law, Yui Lun
Chu, Kwok Tsu Gilbert

and the terms of reference are summarized as follows:–

Relationship with the Company's External Auditors

i) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors;

Note: Rule 13.51(4) of the Listing Rules requires an announcement to be published when there is a change of auditors. The announcement must also include a statement as to whether there are any matters that need to be brought to holders of securities of the Issuer.

ii) to review and monitor the external auditors' independence and objectivity;

iii) to review and monitor the effectiveness of the audit process in accordance with applicable standards and to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commences;

Corporate Governance Report

iv) to develop and implement policy on the engagement of external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally;

v) to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

Review of financial information of the Company

vi) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and quarterly reports (if applicable), and to review any significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and quarterly reports (if applicable) before submission to the Board and the Audit Committee shall focus particularly on:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from audit;

(d) the going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with the Listing Rules and any other legal requirements in relation to financial reporting.

Corporate Governance Report

vii) In regard to (vi) above:–

(a) members of the Audit Committee must liaise with the Company's Board of Directors, senior management and the person appointed as the Company's qualified accountant;

(b) the Audit Committee must meet, at least once a year, with the Company's external auditors; and

(c) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer (if any) (or person occupying the same position), or external auditors.

Oversight of the Company's financial reporting system and internal control procedures

viii) to review the Company's financial controls, internal control and risk management systems;

ix) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

x) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

xi) to ensure co-ordination between the internal auditors (if any) and external auditors and to ensure that the internal audit function (if any) is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

xii) to review the Group's financial and accounting policies and practices;

xiii) to review the external auditor's management letter, any material queries raised by the external auditor to management in respect of the accounting records, financial accounts or systems of control and the management's response;

xiv) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

xv) to report on all of the above matters to the Board; and

xvi) to consider any other matters specifically referred to the Audit Committee by the Board.

Corporate Governance Report

The Audit Committee met three times during the year to discuss the following matters and the attendance record of individual committee members is set out in the table on page 23 of this report.

The Audit Committee met with the external auditors to discuss the half year and annual financial statements for the financial year of 2005. The external auditor also met the Audit Committee without executive director present save for the Financial Controller and the Company Secretary may attend to answer any query on the financial results. In addition, the external auditors were instructed by the Audit Committee to undertake a review of certain internal control systems of a major subsidiary of the Group during the financial year of 2005.

Besides, the Audit Committee Members had visited our plant in Jiaxing PRC in July 2005 to have more understanding in the expansion plan of our core business segment.

The Audit Committee also discussed matters falling within its terms of reference with the external auditors in the presence of the Financial Controller and the Company Secretary from time to time as they requested. When there are uncertainties or ambiguities in interpretation of accounting standards in preparing the half year and annual accounts which might be likely to materially impact the financial position of the Group, the Company would prepare certain analysis explaining the scenario in relation thereto for the Audit Committee consideration and understanding. The Audit Committee has full access to, and the co-operation of, the Company's management in ensuring that it is satisfied with the Company's internal controls.

AUDITORS' REMUNERATION

During the year ended 31 December 2005, the fee paid/payable to the external auditors in respect of audit and non-audit services provided by the auditors to the Group were as follows:

The fees charged by the external auditors of the Company, Deloitte Touche Tohmatsu for the year ended 31 December 2005 amounted to HK$530,000 for audit services and HK$265,000 for non-audit services comprising fees for review of interim financial statements.

SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourages their participation through annual general meetings or other general meetings.

Notices of the annual general meeting and related papers are sent to shareholders no less than 21 days before the meeting. For any other meetings, the relevant papers are sent to shareholders no less than 14 days before the meeting unless the business to be conducted at the meeting requires special notice.

Corporate Governance Report

INVESTOR RELATIONS

To enhance its transparency, the Company encourages dialogue with institutional investors and research analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. Besides, the management of the Company regularly meets with shareholders, institutional investors and research analysts and makes presentations to them, so as to update them on the latest business development of the Group and answer their queries. The corresponding presentation is available upon request.

In order to further promote effective communication, the Company maintains a website (http://www.shougangcentury.com.hk or http://www.irasia.com/listco/hk/sccentury/index.htm) to disseminate the Company's information, financial reports, circulars and announcements electronically on a timely basis.

For the year ended 31 December 2005, the following shareholder meeting was held by the Company:–

Date	Venue	Type of Meeting	Particulars	Voting at the Meeting
13 June 2005	Marriott Ballroom, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong	Annual General Meeting	1. To receive the report of the directors of the Company and the audited accounts of the Company for the year ended 31st December, 2004. 2. To declare a final dividend for the year ended 31st December, 2004. 3. To re-elect the retiring directors. 4. To re-appoint Deloitte Touche Tohmatsu as auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorize the board of directors to fix their remuneration. 5. To approve the general mandate to issue and dispose of additional shares not exceeding 20% of the issued share capital of the Company. 6. To approve the general mandate to repurchase shares not exceeding 10% of the issued shares of the Company and allot additional shares. 7. To amend the Articles of Association of the Company.	By show of hands

Corporate Governance Report

To align with changes of the Listing Rules, the Articles were amended accordingly and approved by shareholders at 2005 Annual General Meeting held on 13 June 2005. The relevant amendments of the changes of the Articles were stated on the circular to the shareholders dated 29 April 2005.

INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls in the Company. It delegated to the management the implementation of such system of internal controls and the review of relevant financial, operational and compliance controls and risk management procedures. We have implemented our internal management control system since 1999. We will review and improve the system from time to time, if appropriate.

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Further details of the principal activities of the principal subsidiaries are set out in note 45 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 48 to 123.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements of the Group, is set out below:

	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)		
PROFIT FOR THE YEAR	**62,228**	148,524	66,324	42,481	19,900
TOTAL ASSETS	**967,215**	939,780	717,245	599,209	574,873
TOTAL LIABILITIES	**(273,462)**	(305,538)	(131,028)	(69,218)	(87,090)
MINORITY INTERESTS	**–**	–	–	(86,502)	(95,011)
	693,753	634,242	586,217	443,489	392,772

The figures for the financial years 2003 and 2004 have been adjusted to reflect the changes in accounting policies, as described in note 2 to the financial statements.

Report of the Directors

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

Particulars of the Group's investment properties as at 31 December 2005 are summarised on page 124 of this annual report.

Details of movements in the investment properties, property, plant and equipment of the Group during the year are set out in notes 14 and 15, respectively to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital of the Company are set out in note 35 to the financial statements. The Company introduced a share option scheme in 2002. Details of share options are set out under the headings "SHARE OPTION SCHEME", "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 42 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 52 and 53 of this annual report and in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK$4,274,000.

Report of the Directors

DIRECTORS

The directors of the Company during the year and up to the date of this annual report were:

Cao Zhong *(Chairman)*	
Li Shaofeng *(Managing Director)*	
Tong Yihui *(Deputy Managing Director)*	
Leung Shun Sang, Tony	
Tang Cornor Kwok Kau *(Deputy Managing Director)*	
Yip Kin Man, Raymond *(Independent Non-executive Director)*	
Chen, Kelvin Siu Min *(Independent Non-executive Director)*	(retired on 13 June 2005)
Hui, Hung Stephen *(Independent Non-executive Director)*	(resigned on 30 September 2005)
Law, Yui Lun *(Independent Non-executive Director)*	(appointed on 18 April 2005)
Chu, Kwok Tsu Gilbert *(Independent Non-executive Director)*	(appointed on 30 September 2005)

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 91, 92 and 96 of the Company's articles of association. Messrs. Li Shaofeng, Tong Yihui, Yip Kin Man, Raymond and Chu, Kwok Tsu Gilbert will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Apart from as disclosed under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" and in note 42 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme and details of movements in the Company's share options during the year are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereunder and in note 42 to the financial statements.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, save for the interest of the Directors in the shares and share options of the Company set out as below, none of the Directors had any interests and short positions in the shares, underlying shares or debentures of the Company or any of their associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required to be disclosed herein pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Long Positions in shares

(a) Ordinary shares of HK$0.10 each of the Company

Name of Director	Total number of shares held	Approximate % with respect to total number of issued share capital as at 31 December 2005	Capacity
Tang Cornor Kwok Kau ("Mr. Tang")	2,496,000	0.24%	Beneficial owner *(Note)*

Note: Those shares were beneficially owned by Mr. Tang and in which of 200,000 shares were also jointly owned by his wife.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(b) Share options

As at 31 December 2005, there were a total of 163,196,000 outstanding share options of the Company granted to directors of the Company, details of which are summarized in the following table:

	Options to subscribe for shares of the Company									
Name of director	Outstanding options at the beginning of the year	Number of options granted during the year	Number of options exercised during the year	Date of exercise	Outstanding options at the end of the year	Date of grant *(Note b)*	Exercise period	Exercise price per share HK$	Capacity in which interests are held	Approximate % of the issued share capital as at 31 December 2005
Cao Zhong	7,652,000	–	–	–	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	57,350,000 *(Note a)*	–	–	–	57,350,000	2/10/2003	2/10/2003 to 1/10/2013	0.780		
	65,002,000	–	–		65,002,000				Beneficial owner	6.34
Li Shaofeng	7,652,000	–	–	–	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	30,614,000 *(Note a)*	–	–	–	30,614,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	38,266,000	–	–		38,266,000				Beneficial owner	3.73
Tong Yihui	7,652,000	–	–	–	7,652,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	38,268,000 *(Note a)*	–	–	–	38,268,000	25/6/2003	25/6/2003 to 24/6/2013	0.365		
	45,920,000	–	–		45,920,000				Beneficial owner	4.48
Leung Shun Sang, Tony	4,592,000	–	–	–	4,592,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	3,060,000	–	–	–	3,060,000	12/3/2003	12/3/2003 to 11/3/2013	0.325		
	4,592,000	–	–	–	4,592,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	12,244,000	–	–		12,244,000				Beneficial owner	1.19
Mr. Tang	1,000,000	–	–	–	1,000,000	25/8/2003	25/8/2003 to 24/8/2013	0.740	Beneficial owner	0.10
Yip Kin Man, Raymond	382,000	–	–	–	382,000	23/8/2002	23/8/2002 to 22/8/2012	0.295		
	382,000	–	–	–	382,000	25/8/2003	25/8/2003 to 24/8/2013	0.740		
	764,000	–	–		764,000				Beneficial owner	0. 07
	163,196,000	–	–		163,196,000					

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(b) Share options (continued)

Other than the holdings and option holdings disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations at 31 December 2005.

Note:

(a) Share options granted were in excess of the individual limit and the approval from shareholders of the Company was obtained in general meetings held on 25 June 2003 and 2 October 2003.

(b) The vesting period of the share option is from the date of grant to the end of the exercise period.

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.10 each in the share capital of the Company are issuable. The share options are personal to the respective directors.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

Report of the Directors

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO

As at 31 December 2005, so far as was known to the Directors, the following parties had an interest or long position or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO, to be entered in the register referred therein:

Long position in shares

Name of shareholder	Total number of shares/ underlying shares held	Approximate % with respect to total number of issued share capital as at 31 December 2005	Capacity
Richson Limited ("Richson")	148,537,939	14.48	Beneficial owner
Fair Union Holdings Limited ("Fair Union")	286,655,179	27.94	Beneficial owner and deemed interest (1)
Shougang Concord International Enterprises Company Limited ("Shougang International")	286,655,179	27.94	Deemed interest (2)
Able Legend Investments Limited ("Able Legend")	126,984,000	12.38	Beneficial owner (3)
Shougang Holding (Hong Kong) Limited ("Shougang HK")	431,961,179	42.10	Deemed interest (4)
Morgan Stanley	69,919,000	6.81	Interests of controlled corporations (5)
Cao Zhong	65,002,000	6.34	Beneficial owner (6)

Report of the Directors

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

Long position in shares (continued)

Notes:

(1) Fair Union is beneficially interested in 135,721,936 shares and is deemed to be interested in the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula Investments Limited ("Casula") as Richson and Casula are its wholly owned subsidiaries.

(2) Shougang International is deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as Richson and Casula are wholly owned by Fair Union, a wholly owned subsidiary of Shougang International.

(3) Able Legend is beneficially interested in 126,984,000 shares.

(4) Shougang HK is deemed to be interested in the 126,984,000 shares and the 15,016,000 shares held by Able Legend and Prime Success Investment Limited ("Prime Success") respectively as Able Legend and Prime Success are its wholly owned subsidiaries and is deemed to be interested in the 3,306,000 shares held by Lyre Terrace Management Limited, a subsidiary of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Shougang HK is the controlling shareholder of Shougang Grand. It is also deemed to be interested in the 135,721,936 shares held by Fair Union, the 148,537,939 shares held by Richson and the 2,395,304 shares held by Casula as it is the holding company of Shougang International.

INTERESTS AND SHORT POSITIONS OR UNDERLYING SHARES OF THE SHAREHOLDERS OF THE COMPANY UNDER THE SFO (continued)

Long position in shares (continued)

Notes: (continued)

(5) Morgan Stanley is interested in 69,919,000 shares.

The following is a breakdown of the interests in shares of Morgan Stanley:

Controlled Corporation	Controlling Shareholder	% control	Total interest in shares Direct interest	Deemed interest	Approximate % of the issued share capital as at 31 December 2005
Morgan Stanley Capital Management, L.L.C.	Morgan Stanley	100	–	69,919,000	6.81
Morgan Stanley Domestic Capital, Inc.	Morgan Stanley Capital Management, L.L.C.	100	–	69,919,000	6.81
Morgan Stanley International Incorporated	Morgan Stanley	90	–	69,919,000	6.81
Morgan Stanley International Holdings Inc.	Morgan Stanley	80	–	69,919,000	6.81
Morgan Stanley Asia Pacific (Holdings) Limited	Morgan Stanley International Holdings Inc.	90	–	69,919,000	6.81
Morgan Stanley Asia Regional (Holdings) III LLC	Morgan Stanley Asia Pacific (Holdings) Limited	100	–	69,919,000	6.81
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	Morgan Stanley Asia Regional (Holdings) III LLC	100	–	69,919,000	6.81
Morgan Stanley Investment Management Company	Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.	100	69,919,000	–	6.81

(6) Mr. Cao Zhong is deemed to be interested in 65,002,000 shares as he holds 65,002,000 underlying shares of the Company as attached share options granted to him by the Company. The details of his share options are set out under the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the contracts of significance between the Group and Shougang HK and its subsidiaries and, Shougang International and its subsidiaries respectively are set out in note 44 to the financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and the board of directors of the Company has approved and adopted a Shougang Concord Century Holdings Limited Code on Corporate Governance (the "SCCH Code") on terms no less exacting than those set out in the Code Provisions of the Code on Corporate Governance Practices – Appendix 14 of the Listing Rules. Further information on the Company's Corporate Governance Practices is set out in the Corporate Governance Report on pages 21 to 32 of this annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

DISCLOSURE PURSUANT TO RULES 13.13 AND 13.15 OF THE LISTING RULES

As at 31 December 2005, trade receivables (the "Trade Receivables") from a customer of the Group, Giti Tire (China) Investment Company Limited, a tire manufacturer in the PRC (the "Customer"), amounted to approximately HK$42,543,000, which equals to approximately 11.1% of the market capitalization based on the average closing price of HK$0.37 per share of the Company for the five business days immediately proceeding 31 December 2005 and the issued share capital of 1,026,066,556 shares.

The Trade Receivables arose from sales of steel cord products to the Customer, the ordinary course of business of the Group. The Customer is an independent third party not connected with the directors, chief executives and substantial shareholders of the Company or any of its subsidiaries or an associate of any of them. The Trade Receivables are unsecured and interest free and with payment terms of approximately 60 days.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting standard. These mainly relate to contracts entered into by the Group in the ordinary course of business which contracts were negotiated on normal commercial terms and on an arm's length basis. Further details are set out in note 44 to the financial statements.

Some of these transactions also constituted "Connected Transactions" under the Listing Rules, as identified below.

CONNECTED TRANSACTIONS

The Group has the following connected transactions disclosed by way of inclusion in the annual report in accordance with Chapter Rules 14A, Rules 14A.32, 14A.45 to 14A.47 of the Listing Rules:

(a) Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirements

Hing Cheong Metals (China & Hong Kong) Limited ("Hing Cheong") and Meta International Limited ("Meta International"), both are engaged in processing and trading of copper and brass products, the wholly owned subsidiaries of the Company entered into between Santai Manufacturing Limited ("Santai"), a wholly owned subsidiary of Shougang Concord Technology Holdings Limited which is defined as connected person pursuant to the Listing Rules whereby Santai purchased, and Hing Cheong and Meta International sold, copper sheets and brass sheets (the "Transactions"). The Transactions were entered into under the ordinary course of business basis. The Transactions constitute connected transaction for the Company and will extend over a period of time and will take place on continuing basis. The aggregate amount of the Transactions during the year was approximately HK$4,154,000 which was fell within the proposed annual cap as disclosed in the published announcement of the Company dated 4 May 2004.

(b) Tenancy Agreement

A tenancy agreement dated 11 January 2005 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2005 to 31 December 2005 at a monthly rental of HK$90,000, exclusive of rates and management fees. The details of this transaction was disclosed in the published announcement of the Company dated 12 January 2005.

Report of the Directors

CONNECTED TRANSACTIONS (continued)

(c) Subsequent to the balance sheet date, the following transactions also constituted connected transactions to the Group:

i) A tenancy agreement dated 3 January 2006 whereby a portion of the 5th Floor, Bank of East Asia Harbour View Centre, 51-57 Gloucester Road, Wanchai, Hong Kong with an aggregate gross floor area of approximately 6,000 square feet was leased by Billioncorp Development Limited, an indirect wholly owned subsidiary of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK$108,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

ii) A tenancy agreement dated 3 January 2006 whereby a premise known as Flat 1612, Block Q, Kornhill, Hong On Street, Quarry Bay, Hong Kong with an aggregate gross floor area approximately 756 square feet was leased by Linksky Limited, an indirect wholly owned subsidiary of Shougang Grand which is an associate of Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January to 2006 to 31 December 2006 at a monthly rental of HK$10,800 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

iii) A tenancy agreement dated 3 January 2006 whereby a premise known as Flat 1906A, Hongway Garden, 8 New Market Street, Sheung Wan, Hong Kong with an aggregate gross floor area approximately 508 square feet was leased by Shougang HK, a substantial shareholder of the Company, to a wholly owned subsidiary of the Company for a term of one year commencing from 1 January 2006 to 31 December 2006 at a monthly rental of HK$8,000 (exclusive of rates and other charges payable to independent third parties not connected with Shougang HK or any of its subsidiaries or any of their respective directors, chief executives or substantial shareholders or any of their respective associates in respect of the use of the premises during the term).

The details of the above transactions are set out in the Company's announcement dated 3 January 2006.

Report of the Directors

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence as well as the prevailing market condition. The emoluments of the directors of the Company are decided by the Remuneration Committee having regard to individual's performance, the Company's performance and profitability, remuneration benchmark in the industry and prevailing market condition.

The Company has adopted a share option scheme as an incentive to eligible participants (including directors of the Company), details of the scheme is set out in note 42 to the financial statements and the heading "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" hereabove.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained sufficient public float as required under the Listing Rules during the year and as at the latest practicable date, 18 April 2006 prior to the issue of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% (2004: 49%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 23% (2004: 15%).

Purchases from the Group's five largest suppliers accounted for approximately 40% (2004: 40%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17% (2004: 17%).

As far as the directors are aware, neither the directors, their associates, nor those shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Report of the Directors

AUDITORS

Messrs. Ernst & Young, who acted as auditors of the Company for the past three years, retired at the annual general meeting on 25 June 2003 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company in their place. A resolution for reappointment of Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

Cao Zhong
Chairman

Hong Kong, 20 April 2006

Report of the Auditors

Deloitte.
德勤

TO THE SHAREHOLDERS OF
SHOUGANG CONCORD CENTURY HOLDINGS LIMITED
首長寶佳集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 48 to 123 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 April 2006

Consolidated Income Statement

For the Year Ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	6	**592,889**	427,864
Cost of sales		**(497,034)**	(315,215)
Gross profit		**95,855**	112,649
Other operating income		**8,328**	5,758
Distribution costs		**(3,748)**	(2,011)
Administrative expenses		**(33,556)**	(29,660)
Other operating expenses		**(46)**	(2,379)
Recovery of (allowance for) bad and doubtful debts, net		**1,939**	(3,244)
Finance costs	8	**(14,468)**	(4,463)
Gain on disposal of subsidiaries	37	**–**	76,651
Loss on disposal of interests in a jointly controlled entity		**–**	(9,410)
Share of results of jointly controlled entities		**9,133**	6,765
Share of result of an associate		**4,781**	3,854
Profit before taxation	9	**68,218**	154,510
Income tax expenses	10	**(5,990)**	(5,986)
Profit for the year		**62,228**	148,524
Dividends	12	**15,391**	40,702
Earnings per share	13		
Basic		**HK6.06 cents**	HK14.57 cents
Diluted		**HK5.84 cents**	HK13.23 cents

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Investment properties	14	**10,340**	8,966
Property, plant and equipment	15	**458,085**	480,213
Prepaid lease payments	16	**7,658**	7,243
Interests in a jointly controlled entity	18	**49,025**	44,883
Interests in an associate	19	**48,234**	45,620
Goodwill	20	**41,672**	41,672
Club memberships	22	**675**	675
Deferred tax assets	23	**–**	16
Available-for-sale investment/investment securities	24	**–**	–
		615,689	629,288
Current assets			
Inventories	25	**84,160**	83,207
Trade receivables	26	**140,172**	97,723
Bills receivable	26	**71,448**	73,499
Prepayments, deposits and other receivables	27	**10,808**	16,309
Prepaid lease payments	16	**426**	381
Amount due from a related company	27	**1,497**	2,118
Pledged bank deposits	28	**3,000**	4,000
Bank balances and cash	27	**37,378**	33,255
Asset classified as held for sale	29	**2,637**	–
		351,526	310,492
Current liabilities			
Trade payables	30	**9,284**	8,828
Bills payable		**–**	475
Other payables and accruals	27	**17,924**	14,180
Tax payable		**668**	865
Bank borrowings – due within one year	32	**200,415**	176,384
Obligations under finance leases – due within one year	34	**–**	206
		228,291	200,938
Net current assets		**123,235**	109,554
Total assets less current liabilities		**738,924**	738,842

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Bank borrowings – due after one year	32	**42,598**	103,063
Other payable		**1,638**	1,537
Deferred tax liabilities	23	**935**	–
		45,171	104,600
		693,753	634,242
Capital and reserves			
Share capital	35	**102,607**	102,607
Reserves		**591,146**	531,635
		693,753	634,242

The financial statements on pages 48 to 123 were approved and authorised for issue by the Board of Directors on 20 April 2006 and are signed on its behalf by:

Cao Zhong
Director

Li Shaofeng
Director

Balance Sheet

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment		**–**	–
Investments in subsidiaries	17	**191,267**	6,778
Advances to subsidiaries	17	**330,918**	476,980
Club memberships	22	**315**	315
		522,500	484,073
Current assets			
Other receivables	27	**211**	8,422
Amounts due from subsidiaries	31	**10,000**	31,000
Pledged bank deposits	28	**3,000**	4,000
Bank balances and cash	27	**1,151**	6,224
		14,362	49,646
Current liabilities			
Other payables and accruals	27	**275**	216
Amounts due to subsidiaries	31	**24,780**	–
Bank borrowings – due within one year	32	**31,750**	40,000
		56,805	40,216
Net current (liabilities) assets		**(42,443)**	9,430
Total assets less current liabilities		**480,057**	493,503
Non-current liabilities			
Amount due to a subsidiary	31	**–**	22,032
Bank borrowings – due after one year	32	**33,905**	40,000
		33,905	62,032
		446,152	431,471
Capital and reserves			
Share capital	35	**102,607**	102,607
Reserves	36	**343,545**	328,864
		446,152	431,471

Cao Zhong
Director

Li Shaofeng
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(Note a)*	Goodwill reserve HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Land use rights revaluation reserve HK$'000	Translation reserve HK$'000	PRC reserve funds HK$'000 *(Note b)*	Retained profits HK$'000	Total HK$'000
At 1 January 2004 as originally stated	101,958	280,804	81,588	–	463	–	6,991	(13,643)	28,490	107,219	593,870
Effects of changes in accounting policies *(note 2A)*	–	–	–	–	–	–	(6,991)	(7)	–	(655)	(7,653)
As restated	101,958	280,804	81,588	–	463	–	–	(13,650)	28,490	106,564	586,217
Surplus on revaluation	–	–	–	–	–	368	–	–	–	–	368
Recognition of deferred tax liability on revaluation of properties	–	–	–	–	–	(64)	–	–	–	–	(64)
Net gain recognised directly in equity	–	–	–	–	–	304	–	–	–	–	304
Release on disposal of subsidiaries	–	–	–	(82,041)	–	–	–	1,196	–	–	(80,845)
Release on disposal of interests in a jointly controlled entity	–	–	–	–	–	–	–	17,582	(8,212)	8,212	17,582
Profit for the year	–	–	–	–	–	–	–	–	–	148,524	148,524
Total recognised income (expense)	–	–	–	(82,041)	–	–	–	18,778	(8,212)	156,736	85,261
Dividend paid/scrip dividend	–	–	–	–	–	–	–	–	–	(40,702)	(40,702)
Repurchase of shares	(550)	–	–	–	550	–	–	–	–	(4,257)	(4,257)
Issue of shares arising from issue of scrip dividend	706	5,057	–	–	–	–	–	–	–	–	5,763
Exercise of share options	493	1,163	–	–	–	–	–	–	–	–	1,656
Transfer and reclassification	–	–	(48,929)	48,929	–	–	–	–	5,896	(5,896)	–
At 31 December 2004	102,607	287,024	32,659	(33,112)	1,013	304	–	5,128	26,174	212,445	634,242

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 *(Note a)*	Goodwill reserve HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Land use rights revaluation reserve HK$'000	Translation reserve HK$'000	PRC reserve funds HK$'000 *(Note b)*	Retained profits HK$'000	Total HK$'000
At 1 January 2005	102,607	287,024	32,659	(33,112)	1,013	304	–	5,128	26,174	212,445	634,242
Effects of changes in accounting policies *(note 2A)*	–	–	–	33,112	–	–	–	–	–	(33,112)	–
	102,607	287,024	32,659	–	1,013	304	–	5,128	26,174	179,333	634,242
Surplus on revaluation	–	–	–	–	–	628	–	–	–	–	628
Recognition of deferred tax liability on revaluation of properties	–	–	–	–	–	(75)	–	–	–	–	(75)
Translation adjustment – foreign subsidiaries	–	–	–	–	–	–	–	10,220	–	–	10,220
Translation adjustment – associate	–	–	–	–	–	–	–	880	–	–	880
Translation adjustment – jointly controlled entity	–	–	–	–	–	–	–	1,021	–	–	1,021
Net gain recognised directly in equity	–	–	–	–	–	553	–	12,121	–	–	12,674
Profit for the year	–	–	–	–	–	–	–	–	–	62,228	62,228
Total recognised income	–	–	–	–	–	–	–	–	–	62,228	62,228
Dividend paid	–	–	–	–	–	–	–	–	–	(15,391)	(15,391)
Transfer	–	–	–	–	–	–	–	–	1,524	(1,524)	–
At 31 December 2005	102,607	287,024	32,659	–	1,013	857	–	17,249	27,698	224,646	693,753

Note:

a. The capital reserve comprises the following:
   - Approximately HK$23,990,000 relates to an assignment of shareholder's loan at a nominal consideration of HK$1 during the corporate re-organisation of the Group for the purpose of the listing in 1992.
   - Approximately HK$6,749,000 relates to the share of surplus on revaluation by an associate in 1995 for the purpose of listing on Shanghai Stock Exchange in 1996.
   - The remaining balance of approximately HK$1,920,000 relates to bonus shares issued by an associate in 2001.

b. In accordance with the articles of association of the subsidiaries, jointly controlled entity and associate registered or incorporated in the People's Republic of China (the "PRC") and the relevant PRC laws and regulations, these subsidiaries, jointly controlled entity and associate are required to transfer at least 10% of their profit after taxation, which is determined in accordance with the PRC accounting rules and regulations, to a statutory reserve fund (including the general reserve fund and enterprise expansion fund, where appropriate) until such reserve balance reaches 50% of the registered capital of the respective company. Transfer to this reserve fund is subject to the approval of the board of directors of the respective company. Statutory reserve fund can only be used to offset accumulated losses or to increase capital.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (Restated)
OPERATING ACTIVITIES		
Profit before taxation	**68,218**	154,510
Adjustments for:		
Depreciation	**38,794**	25,434
Amortisation of prepaid lease payments	**421**	381
Amortisation of goodwill	**–**	2,222
Increase in fair value of investment properties, net	**(2,695)**	(580)
Surplus on revaluation of leasehold land and buildings, net	**(337)**	(1,995)
Loss on disposal of property, plant and equipment	**299**	–
Interest income	**(275)**	(159)
(Recovery of) allowance for bad and doubtful debts, net	**(1,939)**	3,244
Finance costs	**14,468**	4,463
Share of results of jointly controlled entities	**(9,133)**	(6,765)
Share of result of an associate	**(4,781)**	(3,854)
Gain on disposal of subsidiaries	**–**	(76,651)
Loss on disposal of interests in a jointly controlled entity	**–**	9,410
Foreign exchange gain	**(3,058)**	–
Operating cash flows before movements in working capital	**99,982**	109,660
Decrease (increase) in inventories	**145**	(39,309)
Increase in trade and bills receivables	**(36,177)**	(39,885)
Decrease (increase) in prepayments, deposits and other receivables	**3,125**	(5,231)
Decrease (increase) in amount due from a related company	**621**	(656)
(Decrease) increase in trade and bills payables	**(101)**	202
Increase in other payables and accruals	**3,635**	965
Cash generated from operations	**71,230**	25,746
Interest received	**275**	159
Interest paid	**(13,682)**	(6,509)
Interest element on finance lease payments	**(6)**	(34)
Other finance costs paid	**(780)**	–
Hong Kong Profits Tax paid	**–**	(16)
PRC taxes paid, net	**(5,397)**	(5,494)
NET CASH FROM OPERATING ACTIVITIES	**51,640**	13,852

Consolidated Cash Flow Statement

For the Year Ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
INVESTING ACTIVITIES			
Dividend received from a jointly controlled entity		**6,012**	6,273
Dividend received from an associate		**3,047**	3,047
Decrease in pledged bank deposits		**1,000**	–
Proceeds from disposal of property, plant and equipment		**81**	39
Purchase of property, plant and equipment		**(8,455)**	(154,080)
Proceeds from disposal of interests in a jointly controlled entity		**–**	4,177
Proceeds from disposal of subsidiaries	37	**–**	500
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**1,685**	(140,044)
FINANCING ACTIVITIES			
Repayment of trust receipt loans		**(290,240)**	(178,950)
Repayment of bank loans		**(166,398)**	(36,210)
Dividend paid		**(15,391)**	(34,939)
Repayment of obligations under finance lease		**(206)**	(922)
Trust receipt loans raised		**290,684**	220,739
New bank loans raised		**131,913**	164,338
Proceeds on issue of ordinary shares		**–**	1,656
Payment on repurchase of shares		**–**	(4,257)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(49,638)**	131,455
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,687**	5,263
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**33,255**	27,992
Effect of foreign exchange rate changes		**436**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, Bank balances and cash		**37,378**	33,255

Notes to the Financial Statements

For the Year Ended 31 December 2005

1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

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

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

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

Business Combinations

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

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

Share-based Payments

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

Financial Instruments

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities

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

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

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

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

Financial Instruments (continued)

Financial assets and financial liabilities other than debt and equity securities

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

Derivatives and hedging

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

Financial Instruments (continued)

Interest-free non-current loans

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

Owner-occupied Leasehold Interest in Land

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

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

Investment Properties

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

Deferred Taxes related to Investment Properties

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Goodwill

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

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

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

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

Investments in subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

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

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

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in jointly controlled entities (continued)

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

Investment properties

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

Property, plant and equipment

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

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the estimated useful life of 25 to 70 years
Leasehold improvements	20% – 25%
Plant and machinery	6% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

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

Club memberships

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method for steel cord and first-in, first-out method for copper and brass products and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

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

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

Revenue recognition

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

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

Dividend income is recognized when the shareholder's right to receive payment has been established.

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

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

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

Leasing

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

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

The Group as lessor

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

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

The Group as lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Available-for-sale financial assets

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

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

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

Derecognition

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

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

Equity settled share-based payment transactions

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

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

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is approximately HK$41,672,000. Details of the recoverable amount calculation are disclosed in note 21.

Depreciation

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

Allowances for bad and doubtful debts

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

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

Fair value interest rate risk

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk

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

Credit risk

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

6. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, and gross rental income during the year.

An analysis of the Group's turnover is as follows:

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

(a) Business segments

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

(i) the steel cord segment comprises the manufacturing of steel cords;

(ii) the copper and brass products segment comprises the processing and trading of copper and brass products;

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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2005

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2005 (continued)

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2004 (Restated)

	Steel cord HK$'000	Copper and brass products HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Segment revenue				
External sales	266,262	159,674	1,928	427,864
Other operating income	751	1,157	3,850	5,758
Total	267,013	160,831	5,778	433,622
Result				
Segment result	83,060	10,196	(10,079)	83,177
Unallocated corporate income				158
Unallocated corporate expenses				(2,222)
Finance costs				(4,463)
Gain on disposal of subsidiaries	–	–	76,651	76,651
Loss on disposal of interests in a jointly controlled entity	–	–	(9,410)	(9,410)
Share of results of jointly controlled entities	–	–	6,765	6,765
Share of result of an associate	–	–	3,854	3,854
Profit before taxation				154,510
Income tax expenses				(5,986)
Profit for the year				148,524

Notes to the Financial Statements

For the Year Ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

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

	Steel cord HK$'000	Copper and brass products HK$'000	Corporate and others HK$'000	Consolidated HK$'000
OTHER INFORMATION				
Capital expenditure	183,988	311	1,167	185,466
Depreciation	23,905	1,107	422	25,434
Allowances for (recovery of) bad and doubtful debts, net	3,159	373	(288)	3,244
BALANCE SHEET				
Assets				
Segment assets	694,778	72,986	39,150	806,914
Interests in a jointly controlled entity	–	–	44,883	44,883
Interests in an associate	–	–	45,620	45,620
Goodwill	41,672	–	–	41,672
Club memberships	–	–	675	675
Unallocated corporate assets				16
Consolidated total assets				939,780
Liabilities				
Segment liabilities	14,400	6,819	3,801	25,020
Unallocated corporate liabilities				280,518
Consolidated total liabilities				305,538

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

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

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

8. FINANCE COSTS

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

9. PROFIT BEFORE TAXATION

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

10. INCOME TAX EXPENSES

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

10. INCOME TAX EXPENSES (continued)

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

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

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties and land use rights has been charged directly to equity (see note 23).

Notes to the Financial Statements

For the Year Ended 31 December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 December 2005

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

For the year ended 31 December 2004

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

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

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

Their emoluments were within the following bands:

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

12. DIVIDENDS

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

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

13. EARNINGS PER SHARE

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

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

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

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

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

14. INVESTMENT PROPERTIES

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

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2004	49,718	1,135	366,283	6,658	7,321	27,386	458,501
Additions	–	1,005	1,715	885	–	181,861	185,466
Reclassifications	16,353	–	192,357	102	–	(208,812)	–
Disposals	–	–	–	(3,052)	(381)	–	(3,433)
Surplus on revaluation, net	140	–	–	–	–	–	140
Disposal of subsidiaries	(4,340)	–	–	–	–	–	(4,340)
At 31 December 2004 and 1 January 2005	61,871	2,140	560,355	4,593	6,940	435	636,334
Exchange realignment	1,036	6	11,158	53	72	8	12,333
Additions	3	9	2,226	795	1,612	3,810	8,455
Reclassification	1,854	–	1,008	–	–	(2,862)	–
Transfer from investment properties	1,321	–	–	–	–	–	1,321
Transfer to asset held for sale	(2,700)	–	–	–	–	–	(2,700)
Disposals	–	–	(710)	(19)	–	–	(729)
Surplus on revaluation, net	(2,206)	–	–	–	–	–	(2,206)
At 31 December 2005	61,179	2,155	574,037	5,422	8,624	1,391	652,808
Comprising:							
At cost	–	2,155	574,037	5,422	8,624	1,391	591,629
At valuation	61,179	–	–	–	–	–	61,179
	61,179	2,155	574,037	5,422	8,624	1,391	652,808

Notes to the Financial Statements

For the Year Ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
ACCUMULATED DEPRECIATION							
At 1 January 2004	–	988	125,217	5,319	4,884	–	136,408
Provided for the year	2,327	95	22,167	422	423	–	25,434
Eliminated on disposals	–	–	–	(3,051)	(343)	–	(3,394)
Eliminated on revaluation	(2,223)	–	–	–	–	–	(2,223)
Eliminated on disposal of subsidiaries	(104)	–	–	–	–	–	(104)
At 31 December 2004 and 1 January 2005	–	1,083	147,384	2,690	4,964	–	156,121
Exchange realignment	34	1	3,276	34	46	–	3,391
Provided for the year	3,200	236	34,166	527	665	–	38,794
Eliminated on disposals	–	–	(333)	(16)	–	–	(349)
Eliminated on revaluation	(3,171)	–	–	–	–	–	(3,171)
Transfer to asset held for sale	(63)	–	–	–	–	–	(63)
At 31 December 2005	–	1,320	184,493	3,235	5,675	–	194,723
NET BOOK VALUE							
At 31 December 2005	61,179	835	389,544	2,187	2,949	1,391	458,085
At 31 December 2004	61,871	1,057	412,971	1,903	1,976	435	480,213

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$67,012,000 (2004: HK$65,071,000).

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

16. PREPAID LEASE PAYMENTS

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

17. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

18. INTERESTS IN A JOINTLY CONTROLLED ENTITY

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

19. INTERESTS IN AN ASSOCIATE

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

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

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

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

20. GOODWILL

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

21. IMPAIRMENT TESTING ON GOODWILL

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

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

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

22. CLUB MEMBERSHIPS

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

23. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

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

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

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

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

The Company had no significant deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the Year Ended 31 December 2005

24. AVAILABLE-FOR-SALE INVESTMENT/INVESTMENT SECURITIES

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

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

25. INVENTORIES

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

26. TRADE RECEIVABLES/BILLS RECEIVABLE

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

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

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

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

27. OTHER FINANCIAL ASSETS AND LIABILITIES

Other receivables

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

Amount due from a related company

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

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

Bank balances and cash

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

Other payables and accruals

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

28. PLEDGE OF ASSETS

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

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

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

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

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

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

29. ASSET CLASSIFIED AS HELD FOR SALE

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

30. TRADE PAYABLES

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

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

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

31. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

32. BANK BORROWINGS

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

The above amounts are repayable as follows:

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

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

32. BANK BORROWINGS (continued)

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

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

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

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

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

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

Major terms of the interest rate swaps are as follows:

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

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

Notes to the Financial Statements

For the Year Ended 31 December 2005

33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

34. OBLIGATIONS UNDER FINANCE LEASES

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

34. OBLIGATIONS UNDER FINANCE LEASES (continued)

The Group leased certain of its plant and machinery under finance leases. The average lease term is two years. For the year ended 31 December 2005, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2004: Hong Kong Dollar prime rate plus 0.25%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

35. SHARE CAPITAL

	2005		2004	
	Number of shares '000	**Nominal value HK$'000**	Number of shares '000	Nominal value HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January and at 31 December	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At 1 January	**1,026,067**	**102,607**	1,019,580	101,958
Issued on declaration of interim scrip dividend *(Note i)*	**–**	**–**	7,063	706
Exercise of share options	**–**	**–**	4,924	493
Repurchase of shares *(Note ii)*	**–**	**–**	(5,500)	(550)
At 31 December	**1,026,067**	**102,607**	1,026,067	102,607

35. SHARE CAPITAL (continued)

Notes:

(i) On 6 December 2004, the Company issued and allotted a total of approximately 7,063,000 shares of HK$0.10 each in the Company at a price of HK$0.816 per share to the shareholders who elected to receive shares in the Company in lieu of cash for the 2004 interim dividend pursuant to the scrip dividend scheme announced by the Company on 15 October 2004.

(ii) In previous financial year, the Company repurchased and cancelled a total of 5,500,000 shares in the Company on the Stock Exchange pursuant to the general mandate granted by the shareholders at the annual general meeting held on 25 June 2003, details of which were as follows:

Month of repurchase	Number of ordinary share of HK$0.10 each	Price per share		Aggregate consideration paid (before expenses)
		Lowest	Highest	
		HK$	HK$	HK$'000
May 2004	5,500,000	0.73	0.80	4,231

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

36. RESERVES

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

The capital reserve of the Company represented the benefit of acquiring a shareholder's loan at a nominal consideration of HK$1 upon the acquisition of a subsidiary in previous years.

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For the Year Ended 31 December 2005

37. DISPOSAL OF INTERESTS IN SUBSIDIARIES

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

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

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

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

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

38. OPERATING LEASES

The Group as lessee

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

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for an average term of three years.

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

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

38. OPERATING LEASES (continued)

The Group as lessor

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

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

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

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

39. CAPITAL COMMITMENTS

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

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

40. CONTINGENT LIABILITIES

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

41. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the local municipal government. These PRC subsidiaries are required to contribute 20% to 23% of its payroll costs to the scheme/fund. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme/fund.

42. SHARE-BASED PAYMENT TRANSACTIONS

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

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For the Year Ended 31 December 2005

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entitles and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group. The 2002 Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is 78,864,000 shares which represented 7.69% of the issued share capital of the Company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-months period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. An option may be exercised under the 2002 Scheme at any time within 10 years from the date of grant of the options or may be determined by the Board at its absolute discretion. The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The following table discloses details of the Company's share options held by eligible participants and movements in such holdings in relation to the 2002 Scheme during the year:

Grantees	Number of share options for 2005 At 1/1/2005	Reclassification of categories of grantees	Exercised during the year	Date of exercise	At 31/12/2005	Date of grant *(Note a)*	Exercise period	Exercise price per share HK$
Directors of the Company	27,930,000	–	–	–	27,930,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
	3,060,000	–	–	–	3,060,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
	68,882,000	–	–	–	68,882,000	25/6/2003	25/6/2003 – 24/6/2013	0.365
	5,974,000	–	–	–	5,974,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
	57,350,000	–	–	–	57,350,000	2/10/2003	2/10/2003 – 1/10/2013	0.780
	163,196,000	–	–		163,196,000			
Employees other than directors of the Company	27,500,000	–	–	–	27,500,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
All other eligible participants	7,652,000	–	–	–	7,652,000 *(Note b)*	23/8/2002	23/8/2002 – 12/4/2006	0.295
	9,948,000	–	–	–	9,948,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
	20,660,000	–	–	–	20,660,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
	38,260,000	–	–		38,260,000			
	228,956,000	–	–		228,956,000			

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42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Grantees	At 1/1/2004	Reclassification of categories of grantees	Exercised during the year	Date of exercise	At 31/12/2004	Date of grant *(Note a)*	Exercise period	Exercise price per share HK$
	Number of share options for 2004							
Directors of the Company	40,556,000	(10,330,000)	(1,296,000)	9/2/2004	27,930,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
		(Notes b & c)	(500,000)	20/4/2004				
			(500,000)	31/5/2004				
	8,416,000	(5,356,000)	–	–	3,060,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
		(Note d)						
	68,882,000	–	–	–	68,882,000	25/6/2003	25/6/2003 – 24/6/2013	0.365
	6,356,000	(382,000)	–	–	5,974,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
		(Note e)						
	57,350,000	–	–	–	57,350,000	2/10/2003	2/10/2003 – 1/10/2013	0.780
	181,560,000	(16,068,000)	(2,296,000)		163,196,000			
Employees other than directors of the Company	766,000	–	(766,000)	5/2/2004	–	23/8/2002	23/8/2002 – 22/8/2012	0.295
	1,098,000	–	(84,000)	5/2/2004	–	12/3/2003	12/3/2003 – 11/3/2013	0.325
			(332,000)	31/5/2004				
			(682,000)	4/11/2004				
	27,500,000	–	–	–	27,500,000	25/8/2003	25/8/2003 – 24/8/2013	0.740
	29,364,000	–	(1,864,000)		27,500,000			
All other eligible participants	–	7,652,000	–	–	7,652,000	23/8/2002	23/8/2002 – 12/4/2006	0.295
		(Note b)						
	7,652,000	2,678,000	(382,000)	25/10/2004	9,948,000	23/8/2002	23/8/2002 – 22/8/2012	0.295
		(Note c)						
	15,304,000	5,356,000	–	–	20,660,000	12/3/2003	12/3/2003 – 11/3/2013	0.325
		(Note d)						
	–	382,000	(382,000)	25/10/2004	–	25/8/2003	25/8/2003 – 24/8/2013	0.740
		(Note e)						
	22,956,000	16,068,000	(764,000)		38,260,000			
	233,880,000	–	(4,924,000)		228,956,000			

42. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Notes:

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

b. The 7,652,000 outstanding options were held by Ms. Xu Xianghua who resigned as director of the Company on 13 April 2004 and the exercise period were changed from 23/8/2002 – 22/8/2012 to 23/8/2002 – 12/4/2006 by the approval of the board of directors on 8 April 2004. Those options were re-classified from the category of "Directors of the Company" to the category of "All other eligible participants".

c. In which the 2,296,000 outstanding options were held by Ms. Cheng Xiaoyu ("Ms. Cheng") who resigned as director of the Company on 6 January 2004 and the 382,000 options were exercised by Mr. Lai Kam Man ("Mr. Lai") who resigned as director on 30 September 2004. Those options were re-classified from the category of "Directors of the Company" to the category of "All other eligible participants".

d. In which the 5,356,000 outstanding options were held by Ms. Cheng. Those options were re-classified from the category of "Directors of the Company" to the category of "All other eligible participants".

e. The 382,000 options were exercised by Mr. Lai. Those options were re-classified from the category of "Directors of the Company" to the category of "All other eligible participants".

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

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

43. POST BALANCE SHEET EVENTS

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

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

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43. POST BALANCE SHEET EVENTS (continued)

(ii) (continued)

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

44. RELATED PARTY TRANSACTIONS

Trading transaction

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following material transactions with Shougang Concord International Enterprises Company Limited ("Shougang International") and its subsidiaries (collectively the "Shougang International Group"), Shougang HK and its subsidiaries (collectively the "Shougang HK Group"), Shougang Concord Technology Holdings Limited ("Shougang TECH") and its subsidiaries (collectively the "Shougang TECH Group") and a jointly controlled entity of the Group. Shougang International and Shougang HK are the substantial shareholder of the Company and Shougang HK is also the substantial shareholder of Shougang International and Shougang TECH.

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

Compensation of key management personnel

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

45. PRINCIPAL SUBSIDIARIES

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

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

A wholly foreign owned enterprise.

* *Directly held by the Company.*

Notes to the Financial Statements

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45. PRINCIPAL SUBSIDIARIES (continued)

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

None of the subsidiaries had any loan capital subsisting at the end of the year or at anytime during the year.

46. PARTICULARS OF THE JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity as at 31 December 2005 are as follows:

Name	Business structure	Place of registration and operation	Registered capital	Percentage of equity attributable to the Group	Percentage of voting power attributable to the Group	Percentage of profit and loss attributable to the Group	Principal activities
Shanghai Shenjia Metal Products Co., Ltd. 上海申佳金屬制品有限公司	Incorporated	PRC	US$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires

47. PARTICULARS OF THE ASSOCIATE

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

Name	Business structure	Place of registration and operation	Issued and paid-up capital	Percentage of equity attributable to the Group 2005	2004	Principal activities
Xinhua Metal Products Co., Ltd. *(Note)* 新華金屬制品股份有限公司	Incorporated	PRC	193,220,374 shares of RMB1 each	**16.75%**	16.75%	Manufacturing of pre-stressed concrete strands and wires

Note:

Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. Since the Group has one representative in the board of directors of Xinhua (being the vice chairman of Xinhua), the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.

Summary of Investment Properties

Particulars of the investment properties held by the Group as at 31 December 2005 are as follows:

Property	Use	Group interest	Category of lease
1. House 5 – 18 and carport District 5, Legend Garden Villas No. 89 Capital Airport Road Chaoyang District, Beijing People's Republic of China	Residential	100%	Medium term lease
2. Workshop Nos. 8, 15, 16, 17 and 18 on 12th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan Hong Kong	Industrial and commercial	100%	Long term lease
3. Workshop No. 10 on 6th Floor Honour Industrial Centre No. 6 Sun Yip Street Chaiwan Hong Kong	Industrial and commercial	100%	Long term lease