1. CORPORATE INFORMATION

CNT Group Limited is a limited liability company incorporated in Bermuda. The principal place of business is located at 31st Floor and Units E & F on 28th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

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

- manufacture and sale of paint products
- trading of steel products
- property investment
- property development
- strategic investments
- processing and sale of marble and granite (discontinued during the year – note 12)
- manufacturing and trading of fuel (discontinued during the year – note 12)

2.1. BASIS OF PREPARATION AND CONSOLIDATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain available-for-sale equity investments and equity investment at fair value through profit or loss, which have been measured at fair value. Disposal groups and non-current assets held for sale are stated at the lower of carrying amount and fair value less cost to sell as further explained in note 2.5. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

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

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

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 23, 27, 28, 31, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's and the Company's financial statements.

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

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

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

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

(a) HKAS 17 – Leases

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

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

This change in accounting policy has had no effect on the consolidated income statement and accumulated losses. The comparative amounts in the consolidated balance sheet as at 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$167,093,000 are designated as available-for-sale equity investments under the transitional provisions of HKAS 39 and are stated at cost or fair value if they can be reliably determined.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, the equity security held by the Group at 1 January 2005 in the amount of HK$33,000 is designated as equity investment at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly is stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

(c) HKAS 40 – Investment Property

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

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

This change in accounting policy has had no effect on the consolidated income statement and accumulated losses.

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transcations and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

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

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004, the adoption of HKFRS 2 has had no impact on the accumulated losses as at 31 December 2003 and at 31 December 2004.

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

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated reserves in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

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

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

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets *(continued)*

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against consolidated reserves remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The adoption of HKFRS 3 has no financial impact other than the revised accounting policy for goodwill, which is described in more detail in note 2.5 "Summary of significant accounting policies" below.

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the previous SSAP 33 "Discontinuing Operations", the Group would have recognised a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under SSAP 33 due to the stricter criteria in HKFRS 5.

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(g) HKAS-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

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

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

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

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

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

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

2.3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 & 6 Amendments, HKFRS 6, HKFRS-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005. HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 March 2006.

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) *Effect on the consolidated balance sheet*

	Effect of adopting			
At 1 January 2005		HKAS 32# and		
	HKAS 17#	HKAS 39*	HKAS-Int 21#	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Assets				
Property, plant and equipment	(2,378)	—	—	(2,378)
Prepaid land premiums	2,378	—	—	2,378
Available-for-sale equity investments	—	167,093	—	167,093
Long term investments	—	(167,093)	—	(167,093)
Equity investment at fair value through profit or loss	—	33	—	33
Short term investment	—	(33)	—	(33)
				—
Liabilities/equity				
Deferred tax liabilities	—	—	3,128	3,128
Accumulated losses	—	—	(3,128)	(3,128)
				—

* *Presentation taken effect prospectively from 1 January 2005*

\# *Adjustment/presentation taken effect retrospectively*

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) *Effect on the consolidated balance sheet (continued)*

At 31 December 2005	Effect of adopting				
	HKAS 17	HKAS 32 and HKAS 39	HKFRS 5	HKAS-Int 21	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Disposal groups classified as held for sale	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Property, plant and equipment	(2,352)	–	(2,992)	–	(5,344)
Investment properties	–	–	(34,517)	–	(34,517)
Properties under development	–	–	(239,046)	–	(239,046)
Prepaid land premiums	2,352	–	(806)	–	1,546
Interests in associates	–	–	(25,422)	–	(25,422)
Available-for-sale equity investments	–	167,087	–	–	167,087
Long term investments	–	(167,087)	–	–	(167,087)
Equity investment at fair value through profit or loss	–	33	–	–	33
Short term investment	–	(33)	–	–	(33)
Prepayments, deposits and other receivables	–	–	(35,857)	–	(35,857)
Cash and cash equivalents	–	–	(17,071)	–	(17,071)
Assets of disposal groups classified as held for sale	–	–	355,711	–	355,711
					–

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) *Effect on the consolidated balance sheet (continued)*

At 31 December 2005	Effect of adopting				
		HKAS 32 and			
	HKAS 17	HKAS 39	HKFRS 5	HKAS-Int 21	
Effect of new policies (Increase/(decrease))	Prepaid land premiums	Change in classification of equity investments	Disposal groups classified as held for sale	Deferred tax on revaluation of investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Liabilities/equity					
Other payables and accruals	–	–	(168,355)	–	(168,355)
Interest-bearing bank and other borrowings	–	–	(96,000)	–	(96,000)
Tax payable	–	–	(380)	–	(380)
Deferred tax liabilities	–	–	–	3,128	3,128
Liabilities directly associated with the assets classified as held for sale	–	–	264,735	–	264,735
Exchange fluctuation reserve	–	–	(14,030)	–	(14,030)
Exchange fluctuation reserve associated with assets/liabilities of disposal groups classified as held for sale	–	–	14,030	–	14,030
Accumulated losses	–	–	–	(3,128)	(3,128)
					–

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

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

The adoption of HKAS-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets has increased the accumulated losses of the Group as at 1 January 2004 and at 1 January 2005 by HK$2,994,000 and HK$3,128,000 respectively.

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

	Effect of adopting			
	HKAS 1	**HKFRS 5**	**HKAS–Int 21**	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Discontinued operations**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005				
Decrease in revenue	—	(2,342)	—	(2,342)
Decrease in cost of sales	—	2,386	—	2,386
Decrease in other income and gains	—	(4,761)	—	(4,761)
Decrease in selling and distribution costs	—	897	—	897
Decrease in administrative expenses	—	5,461	—	5,461
Decrease in other expenses	—	2,078	—	2,078
Increase in loss from discontinued operations	—	(3,719)	—	(3,719)
Decrease in share of profits and losses of associates	(27)	—	—	(27)
Decrease/(increase) in tax	27	—	(251)	(224)
Total increase in loss	—	—	(251)	(251)
Increase in basic loss per share	—	—	0.02 cents	0.02 cents

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

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

	Effect of adopting		
	HKAS 1	HKAS-Int 21	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Deferred tax on revaluation of investment properties**	**Total**
	HK$'000	HK$'000	HK$'000
Year ended 31 December 2004			
Increase in share of profits and losses of associates	50	—	50
Increase in tax	(50)	(134)	(184)
Total increase in loss	—	(134)	(134)
Increase in basic loss per share	—	0.01 cents	0.01 cents

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Goodwill

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

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

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill *(continued)*

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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

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

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

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

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

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

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

Related parties

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

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

(b) the party is an associate;

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Related parties** (continued)*

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

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

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

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Freehold land	Not depreciated
Freehold buildings and leasehold land and buildings	2%-4% or over the lease terms, whichever rate is higher
Leasehold improvements	10%-33% or over the lease terms, whichever rate is higher
Plant and machinery	9%-25%
Furniture, fixtures and equipment	10%-33%
Motor vehicles	18%-25%

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation *(continued)*

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

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

The transitional provisions set out in paragraph 80A of HKAS 16 "Property, plant and equipment" have been adopted for fixed assets stated at valuation. As a result, those assets stated at revalued amounts based on revaluations which were reflected in the financial statements for periods ended before 30 September 1995 have not been further revalued after that date.

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

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

Investment properties

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investment properties** (continued)*

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets or disposal groups must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Properties under development

Properties under development are stated at cost less impairment losses. Cost includes all development expenditure, capitalised interest and other direct costs attributable to such properties.

Leased assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Leased assets** (continued)*

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

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

Investments and other financial assets

Applicable to the year ended 31 December 2004

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

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement in the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Short term investments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investments and other financial assets** (continued)*

Applicable to the year ended 31 December 2005

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets *(continued)*

Fair value

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

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

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in income statement.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets carried at cost

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

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

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest-bearing loans and bank borrowings

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

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

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

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Income tax** (continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, and associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

Government grant in relation to the contribution of a piece of land from the relevant authority is recognised at a nominal amount. The government grant is recognised when there is reasonable certainty that the grant will be received and that the Group will comply with all conditions attaching to it.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) rental income, in the period in which the properties are let, on a time proportion basis over the lease terms;

(c) from the rendering of services, when the services have been rendered;

(d) from the sale of equity investments at fair value through profit or loss/short term investments, on the transaction dates when the relevant contract notes are executed; and

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

Employee benefits

Share-based payment transactions

The Company operates share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Applicable to share options granted on 26 April 2001

The financial impact of share options granted under share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Employee benefits** (continued)*

Share-based payment transactions (continued)

Applicable to share options grants on or after 1 January 2005

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled transactions and has applied HKFRS 2 only to equity-settled transactions granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits *(continued)*

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

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

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes and other retirement benefits

The Group operates a funded final salary defined benefit pension scheme (the "Scheme") for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Scheme are charged to the income statement over the periods during which the employees provide the related service to the Group.

An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group's future defined benefit obligation under the Scheme earned by the employees as at the balance sheet date (the "Scheme Obligation"). The assets contributed by the Group to the Scheme (the "Scheme Assets") are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

The effect of actuarial gains and losses experienced in the estimation of the Scheme Obligation and the valuation of the Scheme Assets is initially recorded in the balance sheet and is subsequently recognised in the income statement only when the net cumulative actuarial gains or losses in the balance sheet exceed 10% of the higher of the Scheme Obligation and the fair value of Scheme Assets at the beginning of the period. Such "excess" net cumulative actuarial gains or losses are recognised in the income statement over the expected average remaining working lives of the employees participating in the Scheme.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits *(continued)*

Pension schemes and other retirement benefits (continued)

When the Group improves the benefits provided by the Scheme, the effect of the resulting increase in the Scheme Obligation relating to past service by the employees is initially recorded in the balance sheet and is subsequently recognised in the income statement evenly over the period until the benefits vest with the employees.

The net of the Scheme Obligation and the fair value of the Scheme Assets at the balance sheet date, together with the actuarial gains and losses remaining in the balance sheet at that date, is recognised in the balance sheet within non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Scheme or reductions in future contributions to the Scheme. Movements in the net asset or liability recognised in the balance sheet during the period, other than those deferred in the balance sheet, are recorded in the income statement for the period.

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the projected unit credit actuarial valuation method.

The Group also operates defined contribution schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. When an employee leaves the retirement benefits schemes exempted under the Hong Kong Mandatory Provident Fund Schemes Ordinance prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. In respect of the Mandatory Provident Fund retirement benefits scheme, the Group's employer contributions vest fully with the employees when contributed into the scheme.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgements

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

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

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Estimation of impairment losses of available-for-sale investments
In the absence of current prices in an active market for similar investments, the Group considers the discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of existing contracts, planned capacity and unit sales revenue, and using discount rates that reflect current market assessments of the uncertainty of the amount and timing of the cash flows.

The carrying amount of the available-for-sale investments at 31 December 2005 was HK$167,087,000 (2004: HK$167,093,000).

4. SEGMENT INFORMATION

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

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

(a) the paint products segment engages in the manufacturing and sale of paint products;

(b) the marble and granite segment engages in the processing and sale of marble and granite;

(c) the property investment segment comprises:

(i) the investment in residential and commercial premises for their rental income potential;

(ii) the development and sale of properties;

(d) the fuel segment engages in the manufacturing and trading of fuel; and

(e) the "others" segment comprises, principally, the trading of steel products, the sale of crushed stone and the trading of marketable securities.

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

Intersegment sales and transfers are transacted at mutually agreed terms.

Particulars in respect of discontinued operations relating to marble and granite and fuel business segments are set out in note 12.

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Continuing operations					Discontinued operations				
Year ended 31 December 2005	Paint products HK$'000	Property investment HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000	Marble and granite HK$'000	Fuel HK$'000	Eliminations HK$'000	Total HK$'000	Consolidated HK$'000
Segment revenue:										
Sales to external customers	501,995	5,191	44,058	—	551,244	503	1,839	—	2,342	553,586
Intersegment sales	—	5,474	—	(5,474)	—	—	1,641	(1,641)	—	—
Other income and gains	5,622	28,084	9,421	—	43,127	4,761	—	—	4,761	47,888
Total	507,617	38,749	53,479	(5,474)	594,371	5,264	3,480	(1,641)	7,103	601,474
Segment results	42,100	(1,737)	(1,320)	8,918	47,961	(429)	(3,722)	432	(3,719)	44,242
Interest income					722				—	722
Unallocated expenses					(41,996)				—	(41,996)
Finance costs					(7,526)				—	(7,526)
Share of profits and losses of associates					396				—	396
Loss before tax					(443)				(3,719)	(4,162)
Tax					(2,705)				—	(2,705)
Loss for the year					(3,148)				(3,719)	(6,867)
Assets and liabilities:										
Segment assets	268,057	307,241	2,689	(368)	577,619	377	—	—	377	577,996
Interests in associates	—	25,372	—	—	25,372	—	—	—	—	25,372
Unallocated assets:										
Interests in associates					9,166				—	9,166
Available-for-sale equity investments/long term investments					167,087				—	167,087
Assets of disposal groups classified as held for sale					352,142				3,569	355,711
Others					101,466				—	101,466
Total assets					1,232,852				3,946	1,236,798
Segment liabilities	138,345	25,336	3,000	(368)	166,313	13,614	3,076	—	16,690	183,003
Unallocated liabilities										
Liabilities directly associated with assets classified as held for sale					264,735				—	264,735
Others					142,895				—	142,895
Total liabilities					573,943				16,690	590,633

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2005	Continuing operations: Paint products HK$'000	Continuing operations: Property investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operations: Marble and granite HK$'000	Discontinued operations: Fuel HK$'000	Discontinued operations: Eliminations HK$'000	Discontinued operations: Total HK$'000	Consolidated HK$'000
Other segment information:										
Depreciation	8,969	2,648	1,409	—	13,026	3,752	5	—	3,757	16,783
Capital expenditure	22,547	182,270	80	—	204,897	—	—	—	—	204,897
Impairment of interests in and provision for amounts due from associates	—	12,000	—	—	12,000	—	—	—	—	12,000
Unallocated amount					426					426
					12,426					12,426
Provision for inventories	1,056	—	—	—	1,056	—	—	—	—	1,056
Provision for deposit for purchase of a property	—	10,299	—	—	10,299	—	—	—	—	10,299
Write-back of impairment of items of property, plant and equipment	—	—	—	—	—	(1,127)	—	—	(1,127)	(1,127)
Write-back of impairment of properties under development	—	(7,663)	—	—	(7,663)	—	—	—	—	(7,663)
Fair value gains on investment properties, net	—	(12,503)	—	—	(12,503)	—	—	—	—	(12,503)
Write-back of provision for bad and doubtful debts	(1,547)	—	—	—	(1,547)	—	—	—	—	(1,547)
Write-back of provision for other receivables	—	(4,754)	—	—	(4,754)	—	—	—	—	(4,754)

4. SEGMENT INFORMATION (continued)

(a) *Business segments (continued)*

Group

Year ended 31 December 2004	Continuing operations: Paint products HK$'000	Continuing operations: Property investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000 (Restated)	Discontinued operations: Marble and granite HK$'000	Discontinued operations: Fuel HK$'000	Discontinued operations: Eliminations HK$'000	Discontinued operations: Total HK$'000	Consolidated HK$'000 (Restated)
Segment revenue:										
Sales to external customers	417,846	4,367	42,922	–	465,135	5,932	19,306	–	25,238	490,373
Intersegment sales	96	6,759	–	(6,855)	–	–	1,607	(1,607)	–	–
Other income and gains	4,623	215	3,988	–	8,826	6,217	23	–	6,240	15,066
Total	422,565	11,341	46,910	(6,855)	473,961	12,149	20,936	(1,607)	31,478	505,439
Segment results	33,377	(95,553)	(20,308)	6,375	(76,109)	(29,309)	(5,106)	–	(34,415)	(110,524)
Interest income					550				–	550
Unallocated expenses					(71,494)				–	(71,494)
Finance costs					(6,622)				(717)	(7,339)
Share of profits and losses of associates					(3,035)				–	(3,035)
Loss before tax					(156,710)				(35,132)	(191,842)
Tax					(3,791)				–	(3,791)
Loss for the year					(160,501)				(35,132)	(195,633)
Assets and liabilities:										
Segment assets	246,044	373,695	15,886	(474)	635,151	30,386	5,212	–	35,598	670,749
Interests in associates	–	33,160	–	–	33,160	–	–	–	–	33,160
Unallocated assets:										
Interests in associates					28,776				–	28,776
Available-for-sale equity investments/long term investments					167,093				–	167,093
Others					72,989				–	72,989
Total assets					937,169				35,598	972,767
Segment liabilities	86,806	42,382	22,640	(474)	151,354	17,462	4,628	–	22,090	173,444
Unallocated liabilities					147,756				–	147,756
Total liabilities					299,110				22,090	321,200

4. SEGMENT INFORMATION (continued)

(a) *Business segments (continued)*

Group

Year ended 31 December 2004	Continuing operations: Paint products	Continuing operations: Property investment	Continuing operations: Others	Continuing operations: Eliminations	Continuing operations: Total	Discontinued operations: Marble and granite	Discontinued operations: Fuel	Discontinued operations: Eliminations	Discontinued operations: Total	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other segment information:										
Depreciation	8,031	3,279	2,084	–	13,394	6,396	64	–	6,460	19,854
Capital expenditure	8,317	28,185	156	–	36,658	2,005	–	–	2,005	38,663
Amortisation of intangible assets	–	–	1,327	–	1,327	–	–	–	–	1,327
Fair value losses on investment properties, net	–	3,732	–	–	3,732	–	–	–	–	3,732
Impairment of a property under development	–	63,591	–	–	63,591	–	–	–	–	63,591
Impairment of available-for-sale equity investments/ long term investments										847
Amortisation of goodwill	–	242	6,997	–	7,239	–	–	–	–	7,239
Impairment of goodwill	–	1,814	–	–	1,814	–	–	–	–	1,814
Impairment of goodwill remaining eliminated against capital reserve										29,454
Provision for amounts due from associates	–	5,200	–	–	5,200	–	–	–	–	5,200
Impairment of items of property, plant and equipment	–	–	8,165	–	8,165	14,654	–	–	14,654	22,819
Provision for inventories	744	–	–	–	744	2,905	–	–	2,905	3,649
Provision for deposit for purchase of a property	–	18,701	–	–	18,701	–	–	–	–	18,701
Provision/(write-back of provision) for bad and doubtful debts	464	–	–	–	464	(785)	–	–	(785)	(321)

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

Group	Hong Kong		Mainland China		Japan		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**106,634**	111,844	**445,096**	359,207	**1,839**	19,306	**17**	16	**–**	–	**553,586**	490,373
Attributable to discontinued operations	**(141)**	(4,990)	**(362)**	(942)	**(1,839)**	(19,306)	**–**	–	**–**	–	**(2,342)**	(25,238)
Revenue from continuing operations	**106,493**	106,854	**444,734**	358,265	**–**	–	**17**	16	**–**	–	**551,244**	465,135
Other segment information:												
Segment assets	**342,554**	335,886	**876,154**	614,912	**–**	3,820	**18,090**	18,149	**–**	–	**1,236,798**	972,767
Capital expenditure	**7,179**	434	**197,718**	38,229	**–**	–	**–**	–	**–**	–	**204,897**	38,663

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; gross rental income and proceeds from sale of equity investments at fair value through profit or loss/short term investments. All significant intra-group transactions have been eliminated on consolidation.

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of revenue, other income and gains is as follows:

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Revenue			
Sale of paint products		**501,995**	417,846
Sale of other goods		**44,058**	38,580
Gross rental income from investment properties		**5,191**	4,367
Proceeds from sale of equity investments at fair value through profit or loss/ short term investments		**—**	4,342
Attributable to continuing operations reported in the consolidated income statement		**551,244**	465,135
Attributable to discontinued operations:	12		
Sale of fuel		**1,839**	19,306
Sale of marble and granite		**503**	5,932
		553,586	490,373
Other income			
Bank interest income		**722**	550
Service fee income		**1,977**	3,211
Income from contracting out a mining right		**1,327**	—
Others		**8,778**	5,615
		12,804	9,376
Gains			
Fair value gains on investment properties, net	15	**12,503**	—
Gain on partial disposal of a subsidiary	39	**2,349**	—
Gain on disposal of associates		**158**	—
Exchange gains, net		**170**	—
Write-back of impairment of properties under development	16	**7,663**	—
Write-back of provision for other receivables		**4,754**	—
Write-back of provision for bad and doubtful debts		**1,547**	—
Write-back of other payables and accruals		**1,901**	—
		31,045	—
		43,849	9,376

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**381,714**	299,069
Depreciation		**13,026**	13,394
Minimum lease payments under operating leases in respect of land and buildings		**13,585**	9,126
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**386**	475
Auditors' remuneration		**1,850**	1,850
Employee benefits expenses (including directors' remuneration – note 8):			
Wages and salaries		**84,442**	75,676
Pension scheme contributions (defined contribution schemes)		**1,763**	1,898
Less: Forfeited contributions		**(123)**	—
Net pension contributions#		**1,640**	1,898
Pension scheme costs (defined benefit scheme)	25(c)	**93**	224
		1,733	2,122
		86,175	77,798

6. LOSS BEFORE TAX (continued)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Included in "Other expenses":			
Amortisation of intangible assets		—	1,327
Amortisation of goodwill		—	7,239
Impairment of goodwill		—	1,814
Loss on disposal of items of property, plant and equipment		**1,358**	86
Loss on disposal of investment properties		—	638
Fair value losses on investment properties, net	15	—	3,732
Impairment of a property under development	16	—	63,591
Impairment of goodwill remaining eliminated against capital reserve	18	—	29,454
Impairment of interests in and provision for amounts due from associates		**12,426**	5,200
Impairment of items of property, plant and equipment		—	8,165
Impairment of available-for-sale equity investments/long term investments		**6**	847
Provision for an amount due from a jointly-controlled entity		—	21
Provision for deposit for purchase of a property	23	**10,299**	18,701
Provision for bad and doubtful debts		—	464
Exchange losses, net		—	459
Provision for other receivables		**5,598**	—
and after crediting:			
Gross rental income from investment properties		**5,191**	4,367
Fair value gain on equity investment at fair value through profit or loss/ short term investment		—	1

* *The provision for inventories included in cost of inventories sold amounted to HK$1,056,000 (2004: HK$744,000 (restated)).*

\# *The amounts of forfeited contributions available at the current and prior year ends to reduce contributions in future years were not material.*

7. FINANCE COSTS

	2005 HK$'000	2004 HK$'000 (Restated)
Interest on bank loans and overdrafts wholly repayable within five years	**6,109**	6,351
Interest on other loans	**1,367**	923
Interest on finance leases	**50**	65
	7,526	7,339
Attributable to discontinued operations (note 12)	**—**	717
Attributable to continuing operations reported in the consolidated income statement	**7,526**	6,622
	7,526	7,339

8. DIRECTORS' REMUNERATION

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

	Group	
	2005 HK$'000	2004 HK$'000
Fees:		
Executive	**2,250**	2,660
Non-executive	**750**	340
	3,000	3,000
Other emoluments:		
Salaries, allowances and benefits in kind	**15,712**	16,072
Pension scheme contributions	**611**	561
	16,323	16,633
	19,323	19,633

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

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2005	2004
	HK$'000	HK$'000
Sir David Akers-Jones	**200**	100
Li Hui Yan	**200**	100
Lau Wong Fat	**100**	50
Danny T Wong	**200**	40
	700	290

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

(b) Executive directors and a non-executive director

2005	**Fees**	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:				
Tsui Tsin Tong	**1,150**	**9,601**	**409**	**11,160**
Lam Ting Ball, Paul	**100**	**1,970**	**13**	**2,083**
Tsui Ho Chuen, Philip	**500**	**2,242**	**83**	**2,825**
Tsui Yam Tong, Terry	**500**	**1,899**	**106**	**2,505**
	2,250	**15,712**	**611**	**18,573**
Non-executive director:				
Hung Ting Ho, Richard	**50**	**—**	**—**	**50**
	2,300	**15,712**	**611**	**18,623**

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director *(continued)*

2004	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:				
Tsui Tsin Tong	1,560	9,505	348	11,413
Lam Ting Ball, Paul	100	1,967	12	2,079
Tsui Ho Chuen, Philip	500	2,245	69	2,814
Tsui Yam Tong, Terry	500	1,862	106	2,468
Wu Tat Po, Edmond	—	493	26	519
	2,660	16,072	561	19,293
Non-executive director:				
Hung Ting Ho, Richard	50	—	—	50
	2,710	16,072	561	19,343

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2005 **HK$'000**	2004 HK$'000
Salaries, allowances and benefits in kind	**1,127**	1,067
Pension scheme contributions	**66**	66
	1,193	1,133

10. TAX

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

	2005 HK$'000	2004 HK$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	193	195
Underprovision/(overprovision) in prior years	(46)	17
Current – Elsewhere		
Charge for the year	2,316	3,495
Deferred (note 35)	242	84
	2,705	3,791

The share of tax attributable to associates amounting to HK$27,000 (2004: tax credit: HK$50,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. TAX (continued)

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

	Group			
	2005		2004	
	HK$'000	**%**	HK$'000 (Restated)	%
Loss before tax (including loss from discontinued operations)	**(4,162)**		(191,842)	
Tax at the statutory tax rate	**(728)**	**17.5**	(33,572)	17.5
Lower tax rate for specific provinces in the People's Republic of China (the "PRC")	**(6,572)**	**157.9**	(3,547)	1.8
Adjustments in respect of current tax of previous periods	**(46)**	**1.1**	17	(0.0)
Profits and losses attributable to associates	**(69)**	**1.7**	531	(0.3)
Depreciation adjustments	**146**	**(3.5)**	191	(0.1)
Income not subject to tax	**(5,196)**	**124.8**	(1,068)	0.6
Expenses not deductible for tax	**9,378**	**(225.3)**	27,958	(14.6)
Tax losses utilised from previous periods	**(17)**	**0.4**	(141)	0.1
Tax losses not recognised	**5,809**	**(139.6)**	13,422	(7.0)
Tax charge at the Group's effective rate	**2,705**	**(65.0)**	3,791	(2.0)
Tax charge attributable to discontinued operations (note 12)	**—**		—	
Tax charge attributable to continuing operations reported in the consolidated income statement	**2,705**		3,791	

11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The loss for the year attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$233,581,000 (2004: HK$136,281,000) (note 38(b)).

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE

(a) Discontinued Operations

On 20 April 2005, the board of directors of the Group approved the discontinuance of the marble and granite business and the fuel business, which form separate reporting segments of the Group. The decision to discontinue these businesses is to align with the Group's long term strategy to redirect its resource to focus on its more profitable core paint operations. Major assets of these businesses were disposed of or ceased to be used during the year.

The results from the discontinued operations for the years ended 31 December 2005 and 2004 are as follows:

	Marble and granite		**Fuel**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
REVENUE	**503**	5,932	**1,839**	19,306	**2,342**	25,238
Cost of sales	**(303)**	(15,573)	**(2,083)**	(14,038)	**(2,386)**	(29,611)
Gross profit/(loss)	**200**	(9,641)	**(244)**	5,268	**(44)**	(4,373)
Other income and gains	**4,761**	6,217	**—**	23	**4,761**	6,240
Selling and distribution costs	**(39)**	(570)	**(858)**	(4,429)	**(897)**	(4,999)
Administrative expenses	**(4,496)**	(10,485)	**(965)**	(5,391)	**(5,461)**	(15,876)
Other expenses	**(855)**	(14,830)	**(1,223)**	(577)	**(2,078)**	(15,407)
Finance costs	**—**	(602)	**—**	(115)	**—**	(717)
Loss for the year from discontinued operations	**(429)**	(29,911)	**(3,290)**	(5,221)	**(3,719)**	(35,132)

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE (continued)

(a) *Discontinued Operations (continued)*

The net cash flows incurred by the discontinued operations are as follows:

	Marble and granite		Fuel		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Operating activities	**1,061**	(746)	**1,272**	(5,248)	**2,333**	(5,994)
Investing activities	**234**	14,662	**—**	—	**234**	14,662
Financing activities	**—**	(11,147)	**—**	—	**—**	(11,147)
Net cash inflow/(outflow)	**1,295**	2,769	**1,272**	(5,248)	**2,567**	(2,479)

The basic loss per share from discontinued operations is HK0.24 cents (2004: HK2.30 cents) is calculated based on:

	2005	2004
Loss attributable to ordinary equity holders of the parent from discontinued operations	**HK$3,719,000**	HK$35,132,000
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**1,532,970,000**	1,524,657,000

(b) *Assets/liabilities of disposal groups held for sale*

During the year, the directors resolved to dispose of the following assets or disposal groups:

(i) On 6 June 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of the remaining effective 95% equity interest in a subsidiary engaged in property development in Dalian, the PRC. The transaction is scheduled to be completed by the end of 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 4 July 2005.

(ii) On 13 September 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain investment properties in Lee Man Commercial Building for a cash consideration of HK$1,150,000. The transaction is scheduled to be completed by 30 April 2006.

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE (continued)

(b) Assets/liabilities of disposal groups held for sale *(continued)*

(iii) On 12 December 2005, the Group entered into a sale and purchase agreement with an independent third party to dispose of a wholly-owned subsidiary which is engaged in property investment in Futian, Shenzhen. The transaction is expected to be completed on or before August 2006. Details of the transaction were also set out in the Company's circular to its shareholders dated 9 January 2006.

(iv) On 20 December 2005, the Group entered into a principal share transfer agreement with an independent third party (save and except holding of the 53% equity interest in Shenzhen Huate Packing Co., Ltd. ("Shenzhen Huate")) to dispose of its entire 21% equity interest in an associate, Shenzhen Huate. Details of the transaction were also set out in the Company's circular to its shareholders dated 13 March 2006.

(v) As further detailed in notes 47(b) and (c) to the financial statements, subsequent to the balance sheet date, in April 2006, the Group entered into sale and purchase agreements with independent third parties to dispose of certain machineries and a piece of leasehold land of the discontinued marble and granite business of the Group.

The above assets and associated liabilities, which are expected to be sold within twelve months from 31 December 2005, have been classified as disposal groups held for sale and are presented separately in the balance sheet.

The major classes of assets and liabilities of disposal groups as at 31 December 2005 were as follows:

	HK$'000
Assets	
Property, plant and equipment	2,992
Investment properties	34,517
Properties under development	239,046
Prepaid land premiums	806
Interests in associates	25,422
Prepayments, deposits and other receivables	35,857
Cash and cash equivalents	17,071
	355,711

12. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUPS HELD FOR SALE (continued)

(b) Assets/liabilities of disposal groups held for sale (continued)

	HK$'000
Liabilities	
Other payables and accruals	**(168,355)**
Interest-bearing bank and other borrowings	**(96,000)**
Tax payable	**(380)**
	(264,735)
Associated exchange reserve	**14,030**
Net carrying value directly associated with the disposal groups	**105,006**

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

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$7,865,000 (2004: HK$195,967,000 (restated)) and the weighted average number of 1,532,970,000 (2004: 1,524,657,000) ordinary shares in issue during the year.

The calculation of basic loss per share amounts from continuing operations is based on the loss from continuing operations for the year attributable to ordinary equity holders of the parent of HK$4,146,000 (2004: HK$160,835,000 (restated)) and the weighted average number of 1,532,970,000 (2004: 1,524,657,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2005 and 2004 have not been disclosed, as the share options outstanding during these years had anti-dilutive effects on the basic loss per share amounts for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings HK$'000	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005								
At 1 January 2005:								
Cost or valuation	18,486	261,851	1,196	8,101	161,042	21,852	24,630	497,158
Accumulated depreciation and impairment	(763)	(63,451)	–	(5,459)	(131,978)	(16,097)	(18,823)	(236,571)
Net carrying amount	17,723	198,400	1,196	2,642	29,064	5,755	5,807	260,587
At 1 January 2005, net of accumulated depreciation and impairment	17,723	198,400	1,196	2,642	29,064	5,755	5,807	260,587
Additions	–	11,645	31	2,205	5,255	3,022	736	22,894
Disposals	–	(404)	–	(56)	(4,456)	(221)	(216)	(5,353)
Depreciation provided during the year	(87)	(6,019)	–	(1,023)	(6,443)	(1,373)	(1,838)	(16,783)
Write-back of impairment	–	–	–	–	1,127	–	–	1,127
Transfers	–	1,067	(1,067)	–	–	–	–	–
Classified as assets of disposal groups held for sale	–	–	–	–	(2,726)	(153)	(20)	(2,899)
Transfer to investment properties, net	–	(35,374)	–	–	–	–	–	(35,374)
Exchange realignment	11	681	24	3	123	12	12	866
At 31 December 2005, net of accumulated depreciation and impairment	17,647	169,996	184	3,771	21,944	7,042	4,481	225,065
At 31 December 2005:								
Cost	18,502	233,775	184	10,046	114,912	22,746	21,773	421,938
Accumulated depreciation and impairment	(855)	(63,779)	–	(6,275)	(92,968)	(15,704)	(17,292)	(196,873)
Net carrying amount	17,647	169,996	184	3,771	21,944	7,042	4,481	225,065
Analysis of cost or valuation:								
Cost	18,502	23,747	184	10,046	114,912	22,746	21,773	211,910
At 31 December 1994 valuation	–	202,000	–	–	–	–	–	202,000
At 30 June 2005 (transferred from investment properties)	–	8,028	–	–	–	–	–	8,028
	18,502	233,775	184	10,046	114,912	22,746	21,773	421,938

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Freehold land and buildings HK$'000	Leasehold land and buildings HK$'000 (Restated)	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
31 December 2004								
At 1 January 2004:								
Cost or valuation	17,731	289,375	1,042	6,656	158,162	19,984	24,506	517,456
Accumulated depreciation and impairment	(606)	(60,784)	–	(3,971)	(103,794)	(14,640)	(17,935)	(201,730)
Net carrying amount	17,125	228,591	1,042	2,685	54,368	5,344	6,571	315,726
At 1 January 2004, net of accumulated depreciation and impairment	17,125	228,591	1,042	2,685	54,368	5,344	6,571	315,726
Additions	–	–	2,368	1,715	2,955	2,155	1,440	10,633
Disposals	–	(18,903)	–	(115)	(141)	(194)	(126)	(19,479)
Depreciation provided during the year	(107)	(7,909)	–	(1,536)	(6,968)	(1,468)	(1,866)	(19,854)
Impairment	–	(357)	–	(126)	(22,038)	(86)	(212)	(22,819)
Transfers	–	1,330	(2,218)	–	888	–	–	–
Transfer to investment properties	–	(4,352)	–	–	–	–	–	(4,352)
Exchange realignment	705	–	4	19	–	4	–	732
At 31 December 2004, net of accumulated depreciation and impairment	17,723	198,400	1,196	2,642	29,064	5,755	5,807	260,587
At 31 December 2004:								
Cost	18,486	261,851	1,196	8,101	161,042	21,852	24,630	497,158
Accumulated depreciation and impairment	(763)	(63,451)	–	(5,459)	(131,978)	(16,097)	(18,823)	(236,571)
Net carrying amount	17,723	198,400	1,196	2,642	29,064	5,755	5,807	260,587
Analysis of cost or valuation:								
Cost	18,486	36,151	1,196	8,101	161,042	21,852	24,630	271,458
At 31 December 1994 valuation	–	203,000	–	–	–	–	–	203,000
At 31 December 1998 valuation (transferred from investment properties)	–	22,700	–	–	–	–	–	22,700
	18,486	261,851	1,196	8,101	161,042	21,852	24,630	497,158

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005				
At 1 January 2005:				
Cost	1,861	2,984	1,869	6,714
Accumulated depreciation	(1,861)	(2,708)	(1,809)	(6,378)
Net carrying amount	—	276	60	336
At 1 January 2005, net of accumulated depreciation	—	276	60	336
Additions	—	89	—	89
Disposals	—	(14)	—	(14)
Depreciation provided during the year	—	(89)	(60)	(149)
At 31 December 2005, net of accumulated depreciation	—	262	—	262
At 31 December 2005:				
Cost	1,861	3,005	1,869	6,735
Accumulated depreciation	(1,861)	(2,743)	(1,869)	(6,473)
Net carrying amount	—	262	—	262

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2004				
At 1 January 2004:				
Cost	1,861	3,145	2,364	7,370
Accumulated depreciation	(1,861)	(2,862)	(2,244)	(6,967)
Net carrying amount	—	283	120	403
At 1 January 2004, net of accumulated depreciation	—	283	120	403
Additions	—	89	—	89
Disposals	—	(2)	—	(2)
Depreciation provided during the year	—	(94)	(60)	(154)
At 31 December 2005, net of accumulated depreciation	—	276	60	336
At 31 December 2004:				
Cost	1,861	2,984	1,869	6,714
Accumulated depreciation	(1,861)	(2,708)	(1,809)	(6,378)
Net carrying amount	—	276	60	336

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes: The Group entered into certain agreements (the "Xuzhou Agreements") with Xuzhou Economic Development Zone Committee (「徐州經濟開發區管委會」) (the "Xuzhou Authority", under the municipal government of Xuzhou) on 10 April 2004. Pursuant to the Xuzhou Agreements, the Xuzhou Authority arranged the construction of the plant and office buildings for a solvent manufacturing subsidiary in Xuzhou, the PRC ("Xuzhou Subsidiary") and also provided the required funding to the Xuzhou Subsidiary for the construction in the form of loan to the Xuzhou Subsidiary (the "Construction Loan"). With respect to the piece of land on which the plant and office buildings were constructed (the "Xuzhou Land"), it was granted by the Xuzhou Authority to the Xuzhou Subsidiary with nil consideration and the legal title to which will be transferred to Xuzhou Subsidiary upon the completion of the legal formality of the land use right certificate. The construction of the plant and office buildings was completed during the year, and the plant and office buildings were handed over to the Group for the solvent operation in July 2005. Up to the date of these financial statements, the legal formality to obtain the land use right of the Xuzhou Land and property ownership certificates of the plant and office buildings are still in progress. At the balance sheet date, the aggregate carrying value of the plant and office buildings amounted to HK$12,525,000.

The net book value of the Group's items of property, plant and equipment held under finance leases included in the total amount of office equipment and motor vehicles at 31 December 2005 amounted to HK$921,000 (2004: HK$1,339,000).

Certain of the Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued at 31 December 1994, by Vigers Hong Kong Limited (now Vigers Appraisal & Consulting Limited), independent professionally qualified valuers. The leasehold land and buildings situated in Hong Kong were revalued at open market value, based on their existing use. The leasehold land and buildings situated in Mainland China were revalued on a combination of the market and depreciated replacement cost bases. Since 31 December 1994, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16, from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Certain leasehold land and buildings of the Group which had been revalued in 1994 was classified as finance lease under paragraph 16 of HKAS 17 as the lease payments could not be allocated reliably between leasehold land and buildings. Accordingly, the entire lease has been classified as a finance lease of the Group's property, plant and equipment.

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment, their carrying amounts at 31 December 2005 would have been HK$134,226,000 (2004: HK$149,655,000).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Hong Kong	Elsewhere	Total
	HK$'000	HK$'000	HK$'000
Freehold	—	18,502	18,502
Long term leases	64,028	—	64,028
Medium term leases	80,000	89,747	169,747
	144,028	108,249	252,277

At 31 December 2005, certain of the above land and buildings with an aggregate amount of approximately HK$174,974,000 (2004: HK$187,323,000) were pledged to secure general banking facilities granted to the Group (note 33).

15. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**82,160**	127,809
Transfer from owner-occupied properties, net	**35,374**	4,352
Disposals	**—**	(46,269)
Fair value gains/(losses), net	**12,503**	(3,732)
Classified as assets of disposal groups held for sale (note 12(b))	**(34,517)**	—
Carrying amount at 31 December	**95,520**	82,160

15. INVESTMENT PROPERTIES (continued)

The Group's investment properties are held under the following lease terms:

	Group	
	2005	2004
	HK$'000	HK$'000
Long term leasehold land and buildings situated in Hong Kong	**49,500**	23,350
Medium term leasehold land and buildings situated in:		
Hong Kong	**25,020**	23,810
Elsewhere	**21,000**	35,000
	46,020	58,810
	95,520	82,160

The Group's investment properties were revalued on 31 December 2005 by Vigers Appraisal & Consulting Limited or BMI Appraisals Limited, independent professionally qualified valuers. The properties were either revalued at open market value, based on their existing use, or on the basis of capitalisation of net rental income.

Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 43(a) to the financial statements.

At 31 December 2005, certain of the Group's investment properties with a value of HK$95,520,000 (2004: HK$46,160,000) were pledged to secure general banking facilities granted to the Group (note 33).

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January	**74,380**	109,941
Additions	**59,035**	28,030
Write-back of impairment/(impairment) during the year	**7,663**	(63,591)
Classified as assets of disposal groups held for sale (note12(b))	**(116,078)**	—
Carrying amount at 31 December	**25,000**	74,380

16. PROPERTIES UNDER DEVELOPMENT (continued)

The Group's properties under development are situated in and held under the following locations and lease terms:

	Group	
	2005	2004
	HK$'000	HK$'000
Long term leasehold land and buildings situated in Hong Kong	**25,000**	14,003
Medium term leasehold land and building situated elsewhere	**—**	60,377
	25,000	74,380

17. PREPAID LAND PREMIUMS

	Group	
	2005	2004
	HK$'000	HK$'000
Carrying amount at 1 January		
As previously reported	**—**	—
Effect of adopting HKAS 17 (note 2.2(a))	**2,378**	2,436
As restated	**2,378**	2,436
Recognised during the year	**(58)**	(58)
Classified as assets of disposal groups held for sale (note 12(b))	**(806)**	—
Exchange realignment	**32**	—
Carrying amount at 31 December	**1,546**	2,378

The leasehold land is held under a medium term lease and is situated in Mainland China.

18. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition or deemed acquisition of subsidiaries, is as follows:

	2005	2004
	HK$'000	HK$'000
At 1 January:		
Cost	**10,581**	10,581
Accumulated amortisation and impairment	**(10,581)**	(1,528)
Net carrying amount	**—**	9,053
Cost at 1 January, net of accumulated amortisation and impairment	**—**	9,053
Amortisation provided during the year	**—**	(7,239)
Impairment provided during the year	**—**	(1,814)
At 31 December	**—**	—
At 31 December:		
Cost	**10,581**	10,581
Accumulated amortisation and impairment	**(10,581)**	(10,581)
Net carrying amount	**—**	—

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

As further detailed note 2.2(e) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

18. GOODWILL (continued)

The amounts of the goodwill remaining in the consolidated reserves as at 1 January 2005, arising from the acquisition of subsidiaries and associates prior to the adoption of SSAP 30 in 2001, are as follows:

	Goodwill eliminated against consolidated reserves	
	2005	2004
	HK$'000	HK$'000
At 1 January:		
Cost	**221,598**	221,598
Accumulated impairment	**(175,548)**	(146,094)
Net carrying amount	**46,050**	75,504
Cost at 1 January, net of accumulated impairment	**46,050**	75,504
Impairment provided during the year	**—**	(29,454)
At 31 December	**46,050**	46,050
At 31 December:		
Cost	**221,598**	221,598
Accumulated amortisation and impairment	**(175,548)**	(175,548)
Net carrying amount	**46,050**	46,050
Goodwill eliminated against:		
Capital reserve	**45,710**	45,710
General reserve	**340**	340
	46,050	46,050

19. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares/investments, at cost	**224,095**	224,095
Due from subsidiaries	**1,660,069**	1,669,721
Due to subsidiaries	**(721)**	(741)
	1,883,443	1,893,075
Provision for impairment	**(1,232,050)**	(1,007,260)
	651,393	885,815

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries of HK$403,741,000 (2004: HK$373,724,000) which bear interest at the Hong Kong dollar prime rate plus 1% per annum. The carrying amounts of these amount due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Asia Environmental Energy Limited	Hong Kong	HK$2	—	100	Fuel manufacturing and trading
Beforward Investments Limited	British Virgin Islands	US$1	—	100	Investment holding
C & F Container Limited	Hong Kong	HK$2	—	100	Property development

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
China Falcon Investments Limited	Hong Kong	HK$2	—	100	Investment holding
China Hong Kong Quarries Limited	Hong Kong	HK$1,000	—	100	Investment holding
The China Paint Manufacturing Company (1946) Limited	Hong Kong	Ordinary HK$200,000 Non-voting deferred HK$1,761,300	—	100	Manufacture and sale of paint products and investment holding
The China Paint Manufacturing (Shenzhen) Co., Ltd. #	the PRC	HK$70,000,000	—	100	Manufacture and sale of paint products
China Utilities Limited	British Virgin Islands	US$1	—	100	Investment holding
CNT Dalian Company Limited	Hong Kong	HK$2	—	100	Investment holding
CNT Finance Company Limited	Hong Kong	HK$2	100	—	Fund management
CNT Industries (BVI) Limited	British Virgin Islands	US$1,635,512	100	—	Investment holding
CNT Investments (BVI) Limited	British Virgin Islands	US$159,705	100	—	Investment holding

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
CNT Iron And Steel Limited	British Virgin Islands	US$1,566,804	—	100	Investment holding
CNT Iron And Steel Trading Company Limited	Hong Kong	HK$2	—	100	Trading of steel products
CNT-Jialing Investments Limited	Hong Kong	HK$10,000,000	100	—	Property investment
CNT Management And Secretaries Limited	Hong Kong	HK$2	100	—	Management and secretarial services
CNT Solvents Co., (Xuzhou) Ltd.#*	the PRC	US$2,000,000	—	100	Manufacture and sale of solvents
Conley Investment Limited	Hong Kong	HK$2	—	100	Property investment
Coral Reef Enterprises Limited	British Virgin Islands	US$1	—	100	Investment holding
Dalian Qinggang Hotel # *	the PRC	HK$21,000,000	—	95	Property investment
Dalian Qinggang Realestate Development Co., Ltd. ## *	the PRC	US$2,100,000	—	60	Property development
Dongola Holdings Limited	British Virgin Islands	US$1	100	—	Investment holding

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dragon Century Investment Limited	Bristish Virgin Islands/ the PRC	US$100	—	70	Development of website contents and facilities
Elegant Stone International Ltd.	British Virgin Islands	US$360	—	76.1	Investment holding
Full Pool Limited	Hong Kong	HK$2	—	100	Property investment
Golden Premium Limited	Hong Kong	HK$2	—	100	Property development
Honour Rich Development Limited	Hong Kong	HK$2	—	100	Investment holding
Hua Xia International Development Co. Ltd. *	Taiwan	NTD25,000,000	100	—	Property holding
Hubei Jinghua Paint Manufacturing Company Limited## * (formerly known as Hubei Zhonge Paint Mfg Co., Ltd.)	the PRC	RMB40,000,000	—	90.5	Manufacture and sale of paint products
Majority Faith Corporation	British Virgin Islands	US$1	—	100	Investment holding

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Multibest Resources Limited	British Virgin Islands	US$1	—	100	Investment holding
Ocean Wide Assets Limited	British Virgin Islands	US$1	—	100	Investment holding
Opulent Profits Limited	British Virgin Islands	US$1	—	100	Investment holding
Poly Victory (Hong Kong) Limited	Hong Kong	HK$2	—	100	Property investment
Profit Source Limited	Hong Kong	HK$2	—	100	Securities investment
Rainbow Path Enterprises Limited	Hong Kong	HK$1,000	—	100	Investment holding
R, J & Thomas Secretaries Limited	Hong Kong	HK$30,000	—	100	Investment holding
Sammas Trading Corporation	British Virgin Islands	US$492,000	—	100	Investment holding
Tatpo Corporation Limited	Liberia	US$20,872	100	—	Investment holding
Vivien Resources Limited	Hong Kong	HK$2	—	100	Investment holding

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Wilfred Marble Engineering Limited	Hong Kong	Ordinary HK$10,001,000 Non-voting deferred HK$500,000	—	76.1	Processing and sale of marble and granite

* *not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms*

wholly foreign-owned enterprise registered in the PRC

Sino-foreign equity joint venture registered in the PRC

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

20. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**11,783**	28,030
Goodwill on acquisition	**20,080**	22,429
	31,863	50,459
Due from associates	**42,595**	42,583
	74,458	93,042
Provision for impairment	**(20,080)**	(22,429)
Provision for amounts due from associates	**(19,840)**	(8,677)
	34,538	61,936

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from an associate of HK$1,350,000 which bears interest at the Hong Kong dollar prime rate plus 3% per annum or 8% per annum, whichever is higher, and is repayable on 31 December 2006. The carrying amounts of these amounts due from associates approximate to their fair values.

20. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows:

Name	Particulars of issued shares /registered share capital	Place of incorporation/ registration	Percentage of equity attributable to the Group# 2005	2004	Principal activities
Arran Investment Company, Limited	Ordinary shares of HK$100 each	Hong Kong	50	50	Property investment
Liaoyang Beiyang Realestate Development Company Limited	US$1,240,000	the PRC	50	50	Property development
Shenzhen Huate Packing Co., Ltd. (formerly known as Shenzhen Norinco- CP Company Limited)	HK$43,510,000	the PRC	21	21	Manufacture and sale of containers
Treasure Auctioneer International Limited	Ordinary shares of US$1 each	British Virgin Islands	45	45	Investment holding

\# *None of the associates of the Group were audited by Ernst & Young Hong Kong or other Ernst & Young International member firms for the year ended 31 December 2005.*

All of the above associates are corporate associates indirectly held by the Company. The financial year ends of the above associates are coterminous with those of the Group, except for Treasure Auctioneer International Limited and Arran Investment Company, Limited which have financial years ending 30 September and 31 October, respectively. The consolidated financial statements are adjusted for material transactions between these associates and Group companies between the financial year end dates of these associates and that of the Group.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES (continued)

The Group has discontinued the recognition of its share of losses of Liaoyang Beiyang Realestate Development Company Limited because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no binding obligation to make good any losses incurred by the associate. The Group's unrecognised share of losses of this associate for the current year and cumulatively was HK$2,002,000 (2004: HK$244,000) and HK$5,645,000 (2004: HK$3,567,000), respectively.

All the above associates have been accounted for using the equity method in these financial statements, except that Shenzhen Huate with carrying amount of HK$25,422,000 was classified under disposal groups held for sale during the year in accordance with HKFRS 5 (note 12(b)).

The following table illustrates the summarised financial information of the Group's associates (including Shenzhen Huate) extracted from their financial statements:

	2005 HK$'000	2004 HK$'000
Assets	**304,817**	274,524
Liabilities	**234,284**	212,262
Revenues	**349,144**	73,778
Profit/(loss)	**11,068**	(9,776)

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2005 HK$'000	2004 HK$'000
Share of net liabilities	**(822)**	(822)
Due from the jointly-controlled entity	**2,052**	2,052
	1,230	1,230
Provision for amount due from the jointly-controlled entity	**(1,230)**	(1,230)
	—	—

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from the jointly-controlled entity approximates to its fair values.

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

Particulars of the jointly-controlled entity are as follows:

Name	Place of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Right Talent Limited	Hong Kong	40	33.3	40	Provision of online English teaching services

The investment in the jointly-controlled entity is indirectly held by the Company.

The summarised financial information of the Group's jointly-controlled entity is as follows:

	2005 HK$'000	2004 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current liabilities and net liabilities	**(822)**	(822)
Share of the jointly-controlled entity's results:		
Total expenses and net loss for the year	**—**	—

22. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
Unlisted equity investments, at cost	**244,377**	244,377
Less: Impairment	**(77,290)**	(77,284)
	167,087	167,093

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

23. DEPOSIT FOR PURCHASE OF A PROPERTY

The amount represents a deposit paid to an independent third party (the "Vendor") in May 1999 for the acquisition of certain lots of land in Hong Kong, subject to the surrender to and regrant (the "Regrant") by the Hong Kong Government SAR (the "Government") of such lots of land. The land premium payable by the Group for the Regrant is under negotiation with the Government. As the Regrant of the land was not completed before 12 May 2002, the Group has the right to demand repayment of the entire deposit. The planning permission validity period was extended to 18 April 2006 (and further extended to 18 October 2007) by the Town Planning Board. The Regrant has not been completed to date. The Group has not demanded the repayment of the deposit with a view to holding the land for its own development or other purposes. Accordingly, the deposit paid continues to be classified as a non-current asset. An impairment provision of HK$10,299,000 was made against the carrying amount of the deposit in the current year by reference to an independent valuation performed by BMI Appraisals Limited, independent professionally qualified valuers.

24. MORTGAGE LOAN RECEIVABLE

	Group	
	2005	2004
	HK$'000	HK$'000
Mortgage loan receivable, secured	**810**	859
Portion classified as current assets	**(44)**	(51)
Non-current portion	**766**	808
Mortgage loan receivable repayable:		
Within one year	**44**	51
In the second year	**52**	55
In the third to fifth years, inclusive	**190**	189
After five years	**524**	564
	810	859

The carrying amounts of the Group's mortgage loan receivable at 31 December 2005 and 2004 approximate to their fair values, which were determined using the effective interest method.

A second legal charge on a property situated in Hong Kong has been obtained by a subsidiary of the Company as security for the above mortgage loan receivable.

25. PENSION SCHEME ASSET

(a) The movements in the Group's net pension scheme asset in the consolidated balance sheet during the year were as follows:

	2005	2004
	HK$'000	HK$'000
At 1 January	**619**	448
Net pension scheme cost recognised in the consolidated income statement *(note (c))*	**(93)**	(224)
Contributions paid to the pension scheme	**364**	395
At 31 December	**890**	619

(b) The components of the Group's pension scheme net asset as at the balance sheet date were as follows:

	2005	2004
	HK$'000	HK$'000
Present value of defined benefit obligation	**(6,854)**	(7,295)
Fair value of scheme assets	**9,423**	9,246
	2,569	1,951
Net cumulative actuarial gains remaining in the balance sheet	**(1,679)**	(1,332)
Net asset recognised	**890**	619

25. PENSION SCHEME ASSET (continued)

(c) The components of the Group's net pension scheme cost recognised in the consolidated income statement for the year, together with the actual return on the scheme assets for the year, were as follows:

	2005	2004
	HK$'000	HK$'000
Current service cost	**400**	403
Interest cost on defined benefit obligation	**345**	375
Expected return on pension scheme assets	**(633)**	(565)
Net cumulative actuarial (gain)/loss recognised in the income statement	**(29)**	11
Administration cost and group life premium deducted from contribution	**10**	—
	93	224
Actual return on scheme assets	**609**	1,077

The above amount of the Group's net pension scheme cost was included in the "administrative expenses" on the face of the consolidated income statement.

(d) The principal actuarial assumptions used in determining the Group's net pension scheme asset as at the balance sheet date were as follows:

	2005	2004
Discount rate	**4.2%**	5.0%
Expected rate of return on pension scheme assets	**7.0%**	7.0%
Future salary increases	**3.2%**	4.0%

(e) In addition to the above disclosures, the following further information is provided pursuant to the requirements of the Listing Rules. The actuarial valuation of the Group's pension scheme asset as at 31 December 2005 was performed by an actuarial manager of HSBC Life (International) Limited, a member of the Actuarial Society of Hong Kong, using the valuation method detailed under the heading "Employee benefits: Pension schemes and other retirement benefits" in note 2.5 to the financial statements.

As at 31 December 2005, the level of funding of the pension scheme was 115%, as calculated under the projected unit credit actuarial valuation method.

26. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials and spare parts	**33,346**	47,656
Work in progress	**4,730**	4,488
Finished goods	**19,507**	23,421
	57,583	75,565

27. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within three months	**82,176**	68,195
Four to six months	**12,399**	5,788
Over six months	**5,722**	6,036
	100,297	80,019

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**831**	1,222	**—**	—
Deposits and other receivables	**29,269**	41,917	**3,147**	3,649
	30,100	43,139	**3,147**	3,649

29. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENT

	Group	
	2005	2004
	HK$'000	HK$'000
Equity investment listed in Hong Kong, at fair value	**33**	33

The above equity investment at 31 December 2005 was classified as held for trading.

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**92,468**	67,014	**1,225**	887
Time deposits	**4,144**	—	**—**	—
Cash and cash equivalents	**96,612**	67,014	**1,225**	887

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$79,428,000 (2004: HK$54,108,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents approximates to their fair values.

31. TRADE AND BILLS PAYABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within three months	**41,869**	51,204
Four to six months	**26,175**	1,767
Over six months	**10,060**	11,381
	78,104	64,352

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**14,335**	—	**—**	—
Other payables	**34,310**	78,546	**145**	1,057
Accruals	**36,390**	35,223	**3,398**	3,592
	85,035	113,769	**3,543**	4,649
Portion classified as current liabilities	**(85,035)**	(81,173)	**(3,543)**	(4,649)
Non-current portion	**—**	32,596	**—**	—

The current portion of the other payables are non-interest-bearing and have an average term of three months.

As at 31 December 2004, the non-current portion of other payables comprised the following:

(i) a fund of HK$24,628,000 contributed by a co-developer of a property development project of the Group. The fund will be settled by delivery of certain units of the property upon completion of construction of the respective units, which are expected to be completed in 2006 pursuant to the terms of the co-development agreements. The amount is unsecured and interest-free;

(ii) a long term deposit of HK$4,700,000 received from a main construction contractor of a property development project of the Group. The deposit will be refunded upon completion of construction of the whole development project which is expected to be completed in 2007. As this deposit is related to a property development project which is expected to be disposed of in 2006 (as further detailed in note 12(b)(i)), it has been classified under liabilities of disposal groups held for sale as at 31 December 2005; and

(iii) a payable of HK$3,268,000 to a trading partner due in August 2006.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Interest rate per annum	Maturity	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Current						
Finance lease payables (note 34)	3.4%-10.0%	2006	**426**	403	**16**	9
Bank loans - secured	5.2%-10.6%	2006	**80,858**	47,401	**—**	—
Bank loans - unsecured	5.5%	2006	**9,600**	37,600	**—**	—
Import loans - secured	5.8%-7.2%	2006	**14,723**	12,165	**—**	—
Import loans - unsecured	7.0%-7.8%	2006	**6,975**	6,422	**—**	—
			112,582	103,991	**16**	9
Non-current						
Finance lease payables (note 34)	3.4%-10.0%	2007-2009	**587**	977	**32**	12
Bank loans - secured	5.6%-10.6%	2007-2012	**24,473**	28,642	**—**	—
Other loan	5.5%	2007-2015	**13,718**	—	**—**	—
			38,778	29,619	**32**	12
			151,360	133,610	**48**	21

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans and import loans repayable:				
Within one year or on demand	**112,156**	103,588	**—**	—
In the second year	**4,643**	4,566	**—**	—
In the third to fifth years, inclusive	**12,463**	13,873	**—**	—
Beyond five years	**7,367**	10,203	**—**	—
	136,629	132,230	**—**	—
Other borrowings repayable:				
With one year or on demand	**426**	403	**16**	9
In the second year	**1,929**	418	**13**	9
In the third to fifth years, inclusive	**4,755**	559	**19**	3
Beyond five years	**7,621**	—	**—**	—
	14,731	1,380	**48**	21
	151,360	133,610	**48**	21

Notes:

(a) The Group's bank loans and import loans are secured by:

(i) mortgages over certain of the Group's land and buildings with an aggregate net book value at the balance sheet date of approximately HK$174,974,000 (2004: HK$187,323,000); and

(ii) mortgages over certain of the Group's investment properties with an aggregate carrying value at the balance sheet date of approximately HK$95,520,000 (2004: HK$46,160,000).

(b) The Group's other loan represents the Construction Loan as detailed in note 14, which will be secured by the land and buildings of Xuzhou Subsidiary upon completion of the transfer of the related land use right, bears interest at 5.5% per annum and is repayable by nine instalments over a 10-year period with the first instalment due by July 2007.

(c) Included in the Group's interest-bearing bank and other borrowings with carrying amounts of HK$71,162,000 and HK$5,958,000 are denominated in Renminbi and New Taiwan dollars, respectively. All other borrowings of the Group are denominated in Hong Kong dollars.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Other interest rate information:

	2005		2004	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	**HK$'000**	HK$'000	HK$'000
Group				
Finance lease payables	**1,013**	**—**	1,380	—
Bank loans – secured	**—**	**105,331**	—	76,043
Bank loans – unsecured	**—**	**9,600**	—	37,600
Import loans – secured	**—**	**14,723**	—	12,165
Import loans – unsecured	**—**	**6,975**	—	6,422
Other loan	**13,718**	**—**	—	—
Company				
Finance lease payables	**48**	**—**	21	—

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group				
Finance lease payables	**587**	977	**575**	957
Bank loans – secured	**24,473**	28,642	**23,814**	28,115
Other loan	**13,718**	—	**11,179**	—
	38,778	29,619	**35,568**	29,072
Company				
Finance lease payables	**32**	12	**31**	11

The fair values of the Group's and the Company's borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

34. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and office equipment for its operations. These leases are classified as finance leases and have remaining lease terms ranging from one to four years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

Group

	Minimum lease payments 2005 HK$'000	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**459**	450	**426**	403
In the second year	**419**	449	**404**	418
In the third to fifth years, inclusive	**186**	576	**183**	559
Total minimum finance lease payments	**1,064**	1,475	**1,013**	1,380
Future finance charges	**(51)**	(95)		
Total net finance lease payables	**1,013**	1,380		
Portion classified as current liabilities	**(426)**	(403)		
Non-current portion	**587**	977		

34. FINANCE LEASE PAYABLES (continued)

Company

	Minimum lease payments 2005 HK$'000	Minimum lease payments 2004 HK$'000	**Present value of minimum lease payments 2005 HK$'000**	Present value of minimum lease payments 2004 HK$'000
Amounts payable:				
Within one year	**19**	11	**16**	9
In the second year	**13**	9	**12**	9
In the third to fifth years, inclusive	**21**	3	**20**	3
Total minimum finance lease payments	**53**	23	**48**	21
Future finance charges	**(5)**	(2)		
Total net finance lease payables	**48**	21		
Portion classified as current liabilities	**(16)**	(9)		
Non-current portion	**32**	12		

35. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation		Revaluation of properties		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
At 1 January						
As previously reported	**598**	751	**5,743**	6,730	**6,341**	7,481
Effect of adopting HKAS-Int 21 (note 2.2(g))	**3,128**	2,994	**—**	—	**3,128**	2,994
As restated	**3,726**	3,745	**5,743**	6,730	**9,469**	10,475
Deferred tax charged/(credited) to the income statement during the year (note 10)	**242**	(19)	**—**	—	**242**	(19)
Deferred tax charged/(credited) to equity during the year	**—**	—	**9**	(987)	**9**	(987)
Gross deferred tax liabilities at 31 December	**3,968**	3,726	**5,752**	5,743	**9,720**	9,469

35. DEFERRED TAX (continued)

Deferred tax asset

Group

	Losses available for offset against future taxable profit	
	2005	2004
	HK$'000	HK$'000
At 1 January	**6**	109
Deferred tax charged to the income statement during the year (note 10)	**—**	(103)
Gross deferred tax asset at 31 December	**6**	6
Net deferred tax liabilities at 31 December	**9,714**	9,463

The Group has tax losses arising in Hong Kong of HK$665,235,000 (2004: HK$632,329,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

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

36. SHARE CAPITAL

Shares	**2005** **HK$'000**	2004 HK$'000
Authorised:		
2,880,000,000 ordinary shares of HK$0.10 each	**288,000**	288,000
Issued and fully paid:		
1,532,970,193 (2004: 1,532,970,193) ordinary shares of HK$0.10 each	**153,297**	153,297

There was no movement of the Company's share capital during the year. A summary of the transactions during the prior year in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	HK$'000	HK$'000
At 1 January 2004	1,516,106,193	151,611	700,345	851,956
Exercise of share options	16,864,000	1,686	971	2,657
At 31 December 2004 and 31 December 2005	**1,532,970,193**	**153,297**	**701,316**	**854,613**

Share Options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 37.

37. SHARE OPTION SCHEMES

The Company operates three share option schemes, which entitle the holders of share options granted under the schemes to subscribe for ordinary shares of the Company at any time during the exercisable periods of the options. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

(a) Share option scheme adopted in 1991

On 2 May 1991, the Company adopted a share option scheme (the "1991 Scheme") for the primary purpose of providing incentives to directors and eligible employees of the Group.

The exercise price of a share in respect of any particular option granted was the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

The 1991 Scheme expired on 2 May 2001 and a new scheme was adopted on 13 June 2001 (note 37(b)). The share options which had been granted under the 1991 Scheme but which remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 1991 Scheme.

The exercise in full of the outstanding 1991 Scheme share options would, under the present capital structure of the Company, result in the issue of 8,000,000 additional ordinary shares of the Company of HK$0.10 each and additional share capital and share premium of approximately HK$800,000 and HK$922,000 (before issue expenses), respectively.

The following share options were outstanding under the 1991 Scheme during the year:

				Number of share options		
Category of participant	Date of grant	Vesting/ Exercise period	Exercise price per share HK$	Balance at 1 January 2005	Lapsed during the year	Balance at 31 December 2005
Directors and their associates	26 April 2001	26 April 2001 to 25 April 2006	0.2152	8,000,000	—	8,000,000

37. SHARE OPTION SCHEMES (continued)

(b) Share option scheme adopted in 2001

On 13 June 2001, a share option scheme (the "2001 Scheme") was approved by the shareholders for the purpose of providing incentives to the executive directors and employees of the Group by offering them an opportunity to participate in the growth of the Group.

The exercise price of a share in respect of any particular option granted was the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option.

With effect from 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In response to the amendments, the Company terminated the 2001 Scheme and then adopted a new scheme on 28 June 2002 (note 37(c)). The share options which had been granted under the 2001 Scheme but which remain unexercised shall continue to be valid and exercisable in accordance with their terms of issue and the rules of the 2001 Scheme.

The exercise in full of the outstanding 2001 Scheme share options would, under the present capital structure of the Company, result in the issue of 122,038,000 additional ordinary shares of the Company of HK$0.10 each and additional share capital and share premium of approximately HK$12,204,000 and HK$7,029,000 (before issue expenses), respectively.

The following share options were outstanding under the 2001 Scheme during the year:

				Number of share options		
Category of participant	**Date of grant**	**Vesting/ Exercise period**	**Exercise price per share** HK$	**Balance at 1 January 2005**	**Lapsed during the year**	**Balance at 31 December 2005**
Directors and their associates	27 September 2001	27 September 2001 to 26 September 2006	0.1576	115,750,000	—	115,750,000
Other employees, in aggregate	27 September 2001	27 September 2001 to 26 September 2006	0.1576	6,766,000	(478,000)	6,288,000
				122,516,000	(478,000)	122,038,000

37. SHARE OPTION SCHEMES (continued)

(c) Share option scheme adopted in 2002

In order to comply with the amended Listing Rules with effect from 1 September 2001, the Company adopted a new share option scheme (the "2002 Scheme") to replace the 2001 Scheme for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. The 2002 Scheme was approved and adopted on 28 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

At 31 December 2005, no share options had been granted under the 2002 Scheme.

38. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 38 to 39 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against the consolidated reserves, as explained in note 18 to the financial statements.

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	700,345	6,171	288,473	(126,959)	868,030
Issue of shares (note 36)	971	—	—	—	971
Net loss for the year	—	—	—	(136,281)	(136,281)
At 31 December 2004 and 1 January 2005	701,316	6,171	288,473	(263,240)	732,720
Net loss for the year	—	—	—	(233,581)	(233,581)
At 31 December 2005	**701,316**	**6,171**	**288,473**	**(496,821)**	**499,139**

A portion of the contributed surplus arose as a result of the transfer from the share premium account pursuant to a court approval obtained in 1992 for the purpose of writing off goodwill arising on the acquisition of subsidiaries.

The remaining portion of the contributed surplus arose in 1991 as a result of a Group reorganisation and originally represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the consolidated net asset value of the acquired subsidiaries.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

39. PARTIAL DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of a 5% equity interest in a subsidiary to an independent third party for a cash consideration of HK$2,349,000, resulting in a gain of HK$2,349,000 on this disposal (note 5).

The inflow of cash and cash equivalents in respect of the partial disposal of the subsidiary is HK$2,349,000.

40. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

As detailed in notes 14 and 33, during the year, the funding of constructing the plant and office buildings held by Xuzhou Subsidiary for solvent operation were provided by the Xuzhou Authority in the form of Construction Loan.

41. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**—**	—	**75,468**	70,615
Associates	**—**	12,583	**—**	—
	—	12,583	**75,468**	70,615

41. CONTINGENT LIABILITIES (continued)

(b) At 31 December 2005, the Group and the Company had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,745,000 (2004: HK$1,636,000) and HK$43,000 (2004: HK$106,000), respectively, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

42. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in note 33 to the financial statements.

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**4,368**	6,376
In the second to fifth years, inclusive	**1,765**	6,554
	6,133	12,930

43. OPERATING LEASE ARRANGEMENTS (continued)

(b) *As lessee*

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**6,055**	6,290	**153**	204
In the second to fifth years, inclusive	**5,947**	4,930	**—**	153
After five years	**156**	200	**—**	—
	12,158	11,420	**153**	357

44. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for:		
Acquisition of a joint venture company - *note*	**21,450**	21,450
Construction of a property under development classified as assets held for sale	**82,759**	4,086
Purchase of a land use right	**4,061**	—
Capital contribution to a subsidiary	**13,260**	—
	121,530	25,536

The Company had no material capital commitments at the balance sheet date.

44. CAPITAL COMMITMENTS (continued)

Note:

On 15 December 2000, the Group entered into an agreement (the "Agreement") with an independent third party (the "JV Partner"), for the subscription of a 25% equity interest in a joint venture company at a consideration of US$3,000,000. Pursuant to the Agreement, the joint venture company would acquire from the JV Partner certain exclusive rights to manufacture, distribute and sell certain fuel and other products currently held or to be further developed or acquired by the JV Partner (the "Rights"). On 15 January 2001, in accordance with the Agreement, the Group paid a deposit of US$250,000. The remaining balance of the consideration is US$2,750,000 (approximately HK$21,450,000). Due to the uncertainties of the JV Partner's ownership of the Rights, the directors may consider terminating the Agreement.

45. RELATED PARTY TRANSACTIONS

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

	Group	
	2005	2004
	HK$'000	HK$'000
Purchases of raw materials and work in progress from an associate	**18,859**	53,633

The directors consider that the purchases of raw materials and work in progress were made according to the prices and conditions similar to those offered by other suppliers. The balance due to the associate as at 31 December 2005 was HK$1,816,000 (2004: HK$5,567,000).

(b) Outstanding balances with related parties:

Details of the Group's amounts due from/to its associates and a jointly-controlled entity as at the balance sheet date are disclosed in notes 20 and 21 to the financial statements.

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group:

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**17,962**	18,732
Post-employment benefits	**611**	561
Total compensation paid to key management personnel	**18,573**	19,293

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's policies for managing each of these risks are as follows:

Cash flow interest rate risk

The Group is exposed to interest rate risks due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to both fair value and cash flow interest rate risks. The Group's policy is to obtain the most favourable interest rates available.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's main operating subidiaries are located in Hong Kong and PRC and the Group's sales and purchases were mainly in Hong Kong dollars and Renminbi. The Group also has significant investments in Mainland China and its balance sheet, including a portion of its bank loans denominated in Renminbi, can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi. The Group does not expect significant movements in the exchange rates.

Credit risk

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

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts. The Group's policy is to regularly monitor current and expected liquidity requirement, to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in short and longer term.

47. POST BALANCE SHEET EVENTS

(a) As mentioned in note 12(b)(iv) to the financial statements, in relation to the disposal of the Group's entire 21% equity interest in Shenzhen Huate, on 17 March 2006, the Group has entered into a formal agreement (the "Formal Agreement") and shareholders' loan repayment agreement (the "Loan Repayment Agreement") with the purchaser. Pursuant to the Formal Agreement and the Loan Repayment Agreement, the sale consideration of the Group's 21% equity interest in Shenzhen Huate was approximately RMB17,300,000 and the purchaser agreed to repay the shareholders' loan of approximately RMB9,370,000 owed to the Group on behalf of Shenzhen Huate. The disposal is expected to be completed on or before May 2006 and would not result in any significant gain or loss to the Group.

(b) On 1 April, 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of certain machinery of the discontinued marble and granite operation for a cash consideration of HK$2,900,000. The disposal would not result in any significant gain or loss to the Group.

(c) On 10 April 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of a piece of leasehold land situated in Yuen Long, Hong Kong, for a cash consideration of HK$1,128,000. The disposal would not result in any significant gain or loss to the Group.

48. COMPARATIVE AMOUNTS

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

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2006.