

## 1. ORGANISATION AND OPERATIONS

ONFEM Holdings Limited (the “**Company**”) was incorporated in Bermuda. The Company is an investment holding company. The principal activities and other particulars of the Company’s subsidiaries are set out in Note 13 to the accounts.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The accounts of the Company and its subsidiaries (the “**Group**”) have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“**HKSA**”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

In the current year, the Group adopted Statement of Standard Accounting Practice (“**SSAP**”) 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The change to the Group’s accounting policies and the effect of adopting this new standard are set out below.

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of their voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(b) Consolidation** (cont'd)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(c) Goodwill/negative goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

**(d) Revenue recognition**

The accounting policy for contract revenue recognition is set out in Note 2(i).

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Operating lease rental income is recognised on a straight-line basis over the lease period.

Income arising from the sales of completed properties is recognised when title to the properties has passed to the purchaser.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(d) Revenue recognition** (cont'd)

Income on the sales of trading securities is recognised when title to the trading securities has passed to the purchaser.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

**(e) Fixed assets***(i) Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value determined annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

*(ii) Other properties*

Other properties are interests in land and buildings other than investment properties and properties under development and are stated at cost less accumulated depreciation and accumulated impairment losses.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(e) Fixed assets** (cont'd)*(iii) Other fixed assets*

Other fixed assets, comprising leasehold improvements, plant and machinery, furniture, fixtures and equipment, and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

*(iv) Depreciation*

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land is amortised over the remaining period of the lease. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	Over the remaining period of the lease
Buildings	2% – 5%
Leasehold improvements	Over the remaining period of the lease
Plant and machinery	5% – 50%
Furniture, fixtures and equipment	10% – 25%
Motor vehicles	20% – 30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over expected useful lives.

*(v) Impairment/gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(e) Fixed assets** (cont'd)*(v) Impairment/gain or loss on sale* (cont'd)

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings (accumulated losses) and is shown as a movement in reserves.

**(f) Investments in securities***(i) Non-trading securities*

Investments which are held for non-trading purpose are stated at fair value. Changes in the fair value of the individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amounts of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

*(ii) Trading securities*

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(g) Inventories***(i) Manufacturing and trading*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

*(ii) Properties under development, properties or land held for sale*

Properties under development represent interests in land and buildings under construction. Properties under development and properties or land held for sale are carried at the lower of cost and net realisable value. Cost comprises original land acquisition costs, costs of land use rights, construction expenditures incurred and other direct development costs attributable to such properties, including interest. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred on disposal.

**(h) Trade and other receivables**

Provision is made against trade and other receivables to the extent which they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

**(i) Construction contracts in progress**

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable to be recoverable. Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the percentage of contract costs incurred to date to total estimated contract costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(i) Construction contracts in progress** (cont'd)

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as gross amounts due from customers for contract work, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as gross amounts due to customers for contract work, under current liabilities.

**(j) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment, bank overdrafts.

**(k) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

**(l) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which does not have material effect on the results of prior years. Accordingly, no prior year adjustment has been required.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(m) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(n) Employee benefits***(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

*(ii) Pension obligations*

The Group participates in a number of defined contribution pension plans, the assets of which are generally held in separate trustee – administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies.



**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)**(n) Employee benefits** (cont'd)*(iii) Share options*

The Company maintains a share option scheme which share options could be granted to certain directors and eligible person. No compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

**(o) Assets under leases***(i) Finance leases*

Leases where substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum leases payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

*(ii) Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

**(p) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

**2. PRINCIPAL ACCOUNTING POLICIES** (cont'd)

**(q) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

**(r) Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, investments in securities, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in construction and engineering contracting businesses, manufacturing and trading of lubricant oil and chemical products, doors and fire proof materials, property leasing, property development and security investment and trading.

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
(a) Turnover		
Construction and engineering contracts	<b>86,056</b>	250,272
Manufacturing and trading	<b>57,797</b>	62,591
Property leasing	<b>10,826</b>	10,472
Property development	–	7,421
Security investment and trading	<b>6,262</b>	1,412
	<b>160,941</b>	332,168
(b) Other revenues		
Interest income from bank deposits	<b>3,951</b>	6,041
Interest income from loans to a deconsolidated subsidiary	<b>139</b>	–
Others	<b>411</b>	2,714
	<b>4,501</b>	8,755
Total revenue	<b>165,442</b>	340,923

**3. TURNOVER, REVENUE AND SEGMENT INFORMATION** (cont'd)

## (c) Primary reporting format – business segments

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format. Accordingly, the Group has categorised its businesses into the following segments:

Construction and engineering contracts:	Design and installation of curtain walls and aluminium windows, as well as construction work related to electrical and mechanical engineering and other contracting businesses.
Manufacturing and trading:	Manufacturing and trading of lubricant oil and chemical products, doors and fire proof materials.
Property leasing:	Leasing of premises to generate rental income and to gain from the appreciation in the properties' values in the long term.
Property development:	Development of residential and commercial properties.
Security investment and trading:	Trading and investment of securities.

Inter-segment sales are charged at prevailing market prices.

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(c) Primary reporting format – business segments (cont'd)

#### Segment turnover and results

	Construction and engineering contracts		Manufacturing and trading		Property leasing		Property development		Security investment and trading		Elimination		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Revenue</b>														
Sales to external customers	86,056	250,272	57,797	62,591	10,826	10,472	-	7,421	6,262	1,412	-	-	160,941	332,168
Inter-segment sales	-	-	1,139	19,516	-	-	-	-	-	-	(1,139)	(19,516)	-	-
	<b>86,056</b>	<b>250,272</b>	<b>58,936</b>	<b>82,107</b>	<b>10,826</b>	<b>10,472</b>	<b>-</b>	<b>7,421</b>	<b>6,262</b>	<b>1,412</b>	<b>(1,139)</b>	<b>(19,516)</b>	<b>160,941</b>	<b>332,168</b>
<b>Result</b>														
Segment result	(38,176)	(91,845)	(3,671)	(7,125)	(4,657)	(19,355)	(10,936)	8,674	6,300	2,590	-	-	(51,140)	(107,061)
Gain on deconsolidation of subsidiaries													38,747	-
Unallocated corporate expenses, net													(19,941)	(21,461)
Operating loss													(32,334)	(128,522)
Finance costs													(4,860)	(7,703)
Taxation													(95)	(363)
Minority interests													1,550	(266)
Loss attributable to shareholders													(35,739)	(136,854)

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(c) Primary reporting format – business segments (cont'd)

*Segment balance sheet and other segment information*

	Construction and engineering contracts		Manufacturing and trading		Property leasing		Property development		Security investment and trading		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>Segment balance sheet</b>												
Segment assets	30,015	146,763	27,925	25,514	208,515	217,542	212,179	226,073	32,296	43,468	510,930	659,360
Unallocated corporate assets											266,072	280,604
Total assets											777,002	939,964
Segment liabilities	92,641	167,065	10,353	10,938	3,484	6,249	35,144	34,315	–	1	141,622	218,568
Unallocated corporate liabilities											129,895	188,266
Total liabilities											271,517	406,834
<b>Other information</b>												
Capital expenditure incurred during the year	633	503	1,039	938	57	56	145	63	–	–		
Depreciation	874	2,026	1,992	2,006	46	246	229	–	3	3		
Impairment loss recognised in the profit and loss account	546	8,349	477	–	–	–	–	–	–	–		
Impairment loss recognised directly charged to equity	–	–	–	–	–	–	–	–	–	360		
Non-cash expenses/(income) other than depreciation	3,403	10,575	3,715	570	8,488	27,468	11,276	–	(347)	(1,319)		

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(d) Secondary reporting format – geographical segments

The Group's business is managed on a worldwide basis, but it participates in four principal economic environments. Hong Kong and Macau and the People's Republic of China (other than Hong Kong and Macau) (the "PRC") are the major markets for all the Group's businesses, except that a small portion of its income is derived from Australia and other Southeast Asian countries.

The Group's business segments operate in four main geographical areas:

Hong Kong and Macau:	construction and engineering contracts, manufacturing and trading, property leasing and security investment and trading
The PRC:	construction and engineering contracts, manufacturing and trading and property development
Australia:	property development
Southeast Asian countries:	manufacturing and trading

In presenting information on the basis of geographical segments, segment revenues are based on the geographical locations of the customers. Segment assets and capital expenditure are based on geographical locations of the assets.

	Hong Kong and Macau		The PRC		Australia		Southeast Asian countries		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
External sales	98,446	193,797	62,213	130,530	-	7,421	282	420	160,941	332,168
Segment assets	285,199	376,425	225,699	275,510	32	7,425	-	-	510,930	659,360
Capital expenditure	1,096	802	976	994	-	-	-	-	2,072	1,796

**4. OPERATING LOSS**

Operating loss is stated after charging/(crediting) the following:

	2003 HK\$'000	2002 HK\$'000
Gross rental and management fee income from investment properties	<b>(10,826)</b>	(10,472)
Less: Outgoings	<b>2,039</b>	1,964
	<b>(8,787)</b>	(8,508)
Cost of inventories sold	<b>24,640</b>	38,743
Pension scheme contributions, net of forfeited contributions	<b>1,587</b>	1,358
Operating leases in respect of land and buildings	<b>4,117</b>	4,751
Less: Amount capitalised in properties under development	<b>(175)</b>	(241)
	<b>3,942</b>	4,510
Auditors' remuneration	<b>1,850</b>	2,200
Exchange gain, net	<b>(9,146)</b>	(3,413)
Loss/(gain) on disposal of fixed assets	<b>108</b>	(959)
Impairment loss of fixed assets	<b>1,282</b>	9,394
Depreciation on		
Owned fixed assets	<b>3,447</b>	4,703
Leased fixed assets	<b>49</b>	143
	<b>3,496</b>	4,846
Less: Amount capitalised in properties under development	<b>(175)</b>	(146)
	<b>3,321</b>	4,700
Gain on disposal of machinery held for sale	<b>(1,420)</b>	–
Staff costs (excluding Directors' emoluments, see Note 10)	<b>36,847</b>	57,059
Provision for inventory obsolescence and net realisable value	<b>1,878</b>	1,171
Provision for bad and doubtful debts (a)	<b>2,000</b>	7,031
Provision for gross amounts due from customers for contract work	<b>1,573</b>	347
Provision for impairment in value of other assets	<b>525</b>	–
Unrealised gain on revaluation of trading securities	<b>(347)</b>	(1,319)



**4. OPERATING LOSS** (cont'd)

- (a) An amount of approximately HK\$2,162,000, being the write-back of the provision for a loan to China Nonferrous Metals Group (Hong Kong) Limited (“**CNMG**”), a former intermediate holding company of the Company, is eliminated against the provision for bad and doubtful debts. The said amount was received during the year from the liquidators of CNMG as the first interim dividend to the unsecured creditors of CNMG.

**5. FINANCE COSTS**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Bank loans and overdrafts		
Wholly repayable within five years	<b>6,197</b>	9,450
Not wholly repayable within five years	–	126
Loans from minority investors		
Wholly repayable within five years	<b>224</b>	40
Finance leases	<b>21</b>	25
	<b>6,442</b>	9,641
Less: Borrowing costs capitalised in properties under development (a)	<b>(1,582)</b>	(1,938)
	<b>4,860</b>	7,703

- (a) Borrowing costs were capitalised at a rate of 5.31% (2002: rates ranging from 5.04% to 6.44%) per annum.

## 6. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the year (2002: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
Over-provision in prior years	(109)	(338)
Overseas taxation	157	1,680
Deferred taxation relating to the reversal/(origination) of temporary differences (see Note 25)	47	(979)
Taxation charge	<b>95</b>	363

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(37,194)	(136,225)
Calculated at a taxation rate of 17.5% (2002: 16%)	(6,509)	(21,796)
Effect of different taxation rates in other countries	3,507	3,224
Income not subject to taxation	(38,303)	(26,454)
Expenses not deductible for taxation purposes	32,934	26,290
Unrecognised tax losses	8,557	19,099
Increase in net deferred tax assets arising from an increase in taxation rate	(91)	–
Taxation charge	<b>95</b>	363

**7. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

Consolidated loss attributable to shareholders includes a profit of approximately HK\$1,567,000 (2002: loss of HK\$95,633,000) which has been dealt with in the accounts of the Company.

**8. DIVIDENDS**

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

**9. LOSS PER SHARE**

Basic loss per share is calculated based on the consolidated loss attributable to ordinary shareholders of approximately HK\$35,739,000 (2002: HK\$136,854,000) and the weighted average number of 772,181,783 shares (2002: 772,181,783 shares) in issue during the year.

No diluted loss per share is presented as there were no dilutive potential shares in existence during the year.

**10. STAFF COSTS**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Excluding Directors' remuneration:		
Wages	<b>35,346</b>	51,896
Unutilised annual leave	<b>296</b>	1,470
(Write-back of)/provision for long service payment	<b>(322)</b>	2,355
Pension costs – defined contribution plans	<b>1,527</b>	1,338
	<b>36,847</b>	57,059

**11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

## (a) Directors' emoluments

The aggregate amount of emoluments payable to Directors of the Company during the year are as follows:

	<b>2003</b> HK\$'000	2002 HK\$'000
Executive Directors		
Fees	–	200
Salaries and allowances	<b>5,314</b>	5,639
Pension scheme contributions	<b>60</b>	20
Independent Non-executive Directors		
Fees	<b>910</b>	1,107
	<b>6,284</b>	6,966

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or as compensation for loss of office.

An analysis of the emoluments of the Directors by number of Directors and emoluments range is as follows:

	<b>2003</b>	2002
Nil to HK\$1,000,000	<b>7</b>	6
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	<b>1</b>	1
	<b>10</b>	8

No Directors have waived their emoluments in respect of their services to the Group for the year (2002: Nil).

**11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (cont'd)

## (b) Five highest-paid individuals

The five highest-paid individuals included three (2002: two) Executive Directors whose emoluments are disclosed in (a) above. Details of the emoluments of the other two (2002: three) individuals are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Salaries and allowances	<b>2,964</b>	5,560
Pension scheme contributions	<b>214</b>	321
	<b>3,178</b>	5,881

The range of the emoluments of the other two (2002: three) highest-paid individuals is as follows:

	<b>2003</b>	2002
Nil to HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	<b>2</b>	1
HK\$2,000,001 – HK\$2,500,000	–	–
HK\$2,500,001 – HK\$3,000,000	–	–
HK\$3,000,001 or above	–	1
	<b>2</b>	3

During the year, no emoluments were paid by the Group to the five highest-paid individuals as an inducement to join or as compensation for loss of office.

**12. FIXED ASSETS**

(a) The Group's movements in fixed assets during the year are as follows:

	Investment properties <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation							
At 1 January 2003	214,760	24,122	11,201	15,687	17,632	7,405	290,807
Additions	-	-	713	405	534	420	2,072
Revaluation deficit	(8,250)	-	-	-	-	-	(8,250)
Effect on deconsolidation of subsidiaries (see Note 29(b))	-	(10,773)	(2,545)	(5,097)	(6,569)	(1,890)	(26,874)
Disposals	-	(2,364)	(35)	(39)	(286)	(79)	(2,803)
At 31 December 2003	<b>206,510</b>	<b>10,985</b>	<b>9,334</b>	<b>10,956</b>	<b>11,311</b>	<b>5,856</b>	<b>254,952</b>
Analysis of cost or valuation is as follows:							
At cost	-	10,985	9,334	10,956	11,311	5,856	48,442
At professional valuation – 2003	<b>206,510</b>	-	-	-	-	-	<b>206,510</b>
	<b>206,510</b>	<b>10,985</b>	<b>9,334</b>	<b>10,956</b>	<b>11,311</b>	<b>5,856</b>	<b>254,952</b>

## 12. FIXED ASSETS (cont'd)

(a) (cont'd)

	Investment properties HK\$'000	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Accumulated depreciation and impairment losses							
At 1 January 2003	-	11,068	9,224	12,802	15,837	6,124	55,055
Charge for the year	-	149	1,385	829	571	562	3,496
Write-down for impairment loss	-	1,072	79	-	131	-	1,282
Effect on deconsolidation of subsidiaries (see Note 29(b))	-	(7,397)	(2,545)	(5,097)	(6,569)	(1,890)	(23,498)
Disposals	-	(1,627)	(35)	(4)	(182)	(14)	(1,862)
At 31 December 2003	-	3,265	8,108	8,530	9,788	4,782	34,473
Net book value							
At 31 December 2003	<b>206,510</b>	<b>7,720</b>	<b>1,226</b>	<b>2,426</b>	<b>1,523</b>	<b>1,074</b>	<b>220,479</b>
At 31 December 2002	214,760	13,054	1,977	2,885	1,795	1,281	235,752

**12. FIXED ASSETS** (cont'd)

- (b) The carrying amounts of investment properties and land and buildings are analysed as follows:

	Investment properties		Land and buildings	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
In Hong Kong				
Long-term leases (over 50 years)	<b>202,930</b>	210,900	<b>2,970</b>	3,530
Medium-term leases (10-50 years)	–	–	–	4,172
In the PRC				
Long-term leases (over 50 years)	<b>3,580</b>	3,860	–	–
Medium-term leases (10-50 years)	–	–	<b>4,750</b>	5,352
	<b>206,510</b>	214,760	<b>7,720</b>	13,054

- (c) The investment properties were revalued at 31 December 2003 by independent firms of surveyors, FPD Savills (Hong Kong) Limited and Dudley Surveyors Limited, on an open market value basis. Revaluation deficit of approximately HK\$8,250,000 (2002: HK\$27,378,000) has been charged to the profit and loss account.
- (d) An investment property with carrying amount of approximately HK\$195,000,000 (2002: HK\$206,422,000) is mortgaged as collateral for the Group's banking facilities (see Note 30).



## 13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<b>695,296</b>	695,296
Less: Provision for impairment in value	<b>(695,296)</b>	(695,296)
	—	—
Loans to subsidiaries (a)	<b>49,725</b>	100,141
Less: Provision for loans to subsidiaries	<b>(45,726)</b>	(99,802)
	<b>3,999</b>	339
Amounts due from subsidiaries (b)	<b>917,145</b>	931,941
Less: Provision for amounts due from subsidiaries	<b>(514,456)</b>	(512,055)
	<b>402,689</b>	419,886
	<b>406,688</b>	420,225

(a) Included in the loans to subsidiaries is a loan to a subsidiary of approximately HK\$2,587,000 (2002: HK\$3,627,000) which is non-interest bearing. The remaining balances bear interest at commercial lending rates. All balances are unsecured and repayable on demand.

(b) The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

**13. INVESTMENTS IN SUBSIDIARIES** (cont'd)

(c) The following is a list of the principal subsidiaries at 31 December 2003:

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Percentage of equity			Principal activities
			Group's effective holding	Directly held by the Company	Indirectly held by the Company	
Best Pearl Development Limited	Hong Kong	1,000 shares of HK\$1 each	100	–	100	Property investment
Brena Company Limited	Hong Kong	500,000 shares of HK\$1 each	100	–	100	Provision of management services
Bright Circle Limited	Hong Kong	10,000 shares of HK\$1 each	100	–	100	Property investment
Dongguan Bridgman Fire Doors Limited (ii)	PRC	RMB12,062,711	52	–	52	Manufacturing of fire doors
Eastrend (Hong Kong) Limited	Hong Kong	2 shares of HK\$1 each	100	–	100	Property investment
Enful Engineering Limited	Hong Kong/ Hong Kong and PRC	100 shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each	52	–	52	Selling and installation of fire proof materials and products
Enful Holdings Limited	British Virgin Islands/Hong Kong and PRC	10,000 shares of US\$1 each and 4 non-voting deferred shares of US\$1 each	52	–	52	Investment holding

**13. INVESTMENTS IN SUBSIDIARIES** (cont'd)

(c) (cont'd)

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Percentage of equity			Principal activities
			Group's effective holding	Directly held by the Company	Indirectly held by the Company	
Fantasia Venture Limited	British Virgin Islands/PRC	1 share of US\$1	100	–	100	Investment holding
Full Pacific Limited	Hong Kong	2 shares of HK\$1 each	100	–	100	Property investment
Geraldine Profits Limited	British Virgin Islands/Hong Kong	1 share of US\$1	100	–	100	Securities trading
Great Way Properties Limited	Hong Kong/PRC	2 shares of HK\$1 each	100	–	100	Property investment
Jaeger Development Limited	British Virgin Islands	1 share of US\$1	100	–	100	Investment holding
Jaeger Oil & Chemical Company Limited	Hong Kong	10 shares of HK\$100 each and 20,000 non-voting deferred shares of HK\$100 each	100	–	100	Manufacturing and trading of lubricant oil and chemical products
Jaeger Oil & Chemical Holdings Limited	British Virgin Islands/Hong Kong and PRC	100 shares of US\$1 each	100	–	100	Investment holding

**13. INVESTMENTS IN SUBSIDIARIES** (cont'd)

(c) (cont'd)

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Group's effective holding	Percentage of equity		Principal activities
				Directly held by the Company	Indirectly held by the Company	
Jaeger Trading (Overseas) Limited	Island of Nevis	2 shares of IR£1 each	100	–	100	Provision of agency and consultancy services
Karman Industries Limited	Hong Kong	1,000 shares of HK\$1 each	100	–	100	Securities trading
King Life Development Limited	Hong Kong	1,000 shares of HK\$1 each	100	–	100	Provision of financing for other group companies
Linkcheer Limited	Hong Kong	2 shares of HK\$1 each	100	–	100	Property investment
ONFEM Company Limited	Hong Kong	2 shares of HK\$1 each	100	–	100	Investment holding
ONFEM Finance Limited	British Virgin Islands/Hong Kong	1,000 shares of US\$1 each	100	100	–	Provision of financing for other group companies
ONFEM Investments Limited	British Virgin Islands/Hong Kong	100 shares of US\$10 each	100	100	–	Investment holding
Pedviking Pty. Limited	Australia	250 shares of A\$1 each	100	–	100	Property development

**13. INVESTMENTS IN SUBSIDIARIES** (cont'd)

(c) (cont'd)

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Percentage of equity		Principal activities	
			Group's effective holding	Directly held by the Company		Indirectly held by the Company
Polycrown Construction Engineering Limited (iii)	PRC	US\$5,000,000	51	–	51	Electrical and mechanical engineering works
Polycrown Engineering (Holdings) Limited	British Virgin Islands/Hong Kong and PRC	100 shares of US\$1 each	51	–	51	Investment holding
Polycrown Engineering Limited	Hong Kong	1,000,000 shares of HK\$0.01 each and 1,000,000 non-voting deferred shares of HK\$1 each	51	–	51	Electrical and mechanical engineering works
Polycrown International Engineering Limited Inc.	Republic of Panama	500 shares	51	–	51	Trading, marketing and design
Rich Reward Limited	Samoa/Norway	1 share of US\$1	100	–	100	Investment holding
Tinnex Management Limited	Hong Kong	2 shares of HK\$1 each	100	–	100	Property management
Top Gain Properties Limited	Hong Kong/ PRC	2 shares of HK\$1 each	100	–	100	Property investment

## 13. INVESTMENTS IN SUBSIDIARIES (cont'd)

(c) (cont'd)

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Percentage of equity			Principal activities
			Group's effective holding	Directly held by the Company	Indirectly held by the Company	
Virtyre Limited	Hong Kong	2 shares of HK\$10 each	100	–	100	Property investment
Wellstep Management Limited	British Virgin Islands/Hong Kong	30,000 shares of US\$1 each	52	–	52	Investment holding
Wilson Murray Far East Limited	Hong Kong	100 shares of HK\$10 each	100	–	100	Securities trading
Zhuhai (Oriental) Blue Horrison Properties Company Limited (iv)	PRC	RMB44,000,000	80	–	80	Property development

(i) The class of shares held is ordinary unless otherwise stated. None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2003.

(ii) Dongguan Bridgman Fire Doors Limited (“**Dongguan Bridgman**”) is a Sino-foreign equity joint venture established in the PRC with an operating period of 12 years extending to 2005, of which Bridgman Fire Doors (H.K.) Limited, a 52% subsidiary of the Company, is a joint venture partner. Pursuant to the terms as stipulated in the joint venture agreement, the Chinese joint venture partner is entitled to a fixed annual guaranteed distribution of RMB60,000. Bridgman Fire Doors (H.K.) Limited is entitled to share all the profits/losses of Dongguan Bridgman after deducting the distribution to the Chinese joint venture partner.

(iii) Polycrown Construction Engineering Limited (“**Polycrown Construction**”) is a Sino-foreign equity joint venture established in the PRC with an operating period of 30 years extending to 2027, of which Polycrown Engineering Limited, a 51% subsidiary of the Company, is a joint venture partner. Pursuant to the terms as stipulated in the joint venture agreement, the Chinese joint venture partner is entitled to a fixed annual guaranteed distribution of RMB300,000. Polycrown Engineering Limited is entitled to share all the profits/losses of Polycrown Construction after deducting the distribution to the Chinese joint venture partner.

(iv) Zhuhai (Oriental) Blue Horrison Properties Company Limited (“**ZOBHP**”) is a Sino-foreign equity joint venture established in the PRC with an operating period of 8 years extending to 2007 (see Note 36).

(d) The Company has undertaken to provide continuing support to finance the future operations of certain subsidiaries.

**14. NON-TRADING SECURITIES**

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed in Hong Kong, at fair value	28,440	16,560
Unlisted, at cost (a)	243,600	243,600
Less: Provision for impairment in value	(243,600)	(243,600)
	–	–
	28,440	16,560
Quoted market value of listed securities	28,440	16,560

- (a) As at 31 December 2003, the Group held approximately 15.3% (2002: 15.3%) of the common stock of Greater Beijing Region Expressways Limited (“GBRE”), a company incorporated in the British Virgin Islands. Pursuant to a winding up order issued by the High Court of the Hong Kong Special Administrative Region (“HKSAR”) against Greater Beijing First Expressways Limited (“GBFE”), a key principal subsidiary of GBRE, on 12 June 2000, all the financial information of GBFE was withheld by the liquidator. A full provision on the original investment cost of GBRE of approximately HK\$243,600,000 was made accordingly.

**15. OTHER ASSETS**

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Transferrable debentures	1,312	1,492	1,312	1,492
Others	426	834	–	–
	1,738	2,326	1,312	1,492

**16. INVENTORIES**

	Group	
	2003 HK\$'000	2002 HK\$'000
Manufacturing and trading stocks (a)		
Raw materials	5,212	7,007
Work in progress	231	1,052
Finished goods	10,601	9,529
	<b>16,044</b>	17,588
Less: Provision for inventory obsolescence	<b>(8,465)</b>	(6,842)
	<b>7,579</b>	10,746
Properties under development – located in the PRC (b)	<b>222,172</b>	215,772
Less: Provision for net realisable value	<b>(11,276)</b>	–
	<b>210,896</b>	215,772
Properties held for sale	–	2,709
Machinery held for sale	–	4,713
Less: Provision for net realisable value	–	(4,213)
	–	500
	<b>218,475</b>	229,727

(a) Certain inventories are held under trust receipt loan arrangements (see Note 30).

(b) Properties under development are expected to be recovered after one year. All of the other inventories are expected to be recovered within one year.

**17. AMOUNTS DUE FROM/TO MINORITY INVESTORS**

The balances with the minority investors are unsecured, non-interest bearing and have no fixed repayment terms.



## 18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade and contract receivables, net (a)	<b>32,094</b>	70,986	–	–
Retention receivables (see Note 19)	<b>3,883</b>	18,313	–	–
Deposits	<b>1,529</b>	7,820	<b>910</b>	6,335
Prepayments	<b>1,002</b>	1,260	<b>462</b>	221
Others	<b>9,884</b>	4,833	<b>6,450</b>	484
	<b>48,392</b>	103,212	<b>7,822</b>	7,040

(a) The aging analysis of trade and contract receivables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	<b>28,233</b>	44,804
31 – 60 days	<b>5,715</b>	12,435
61 – 90 days	<b>5,559</b>	5,045
Over 90 days	<b>47,083</b>	94,862
	<b>86,590</b>	157,146
Less: Provision for bad and doubtful debts	<b>(54,496)</b>	(86,160)
	<b>32,094</b>	70,986

The normal credit period granted by the Group is from 30 days to 60 days from the date of invoice.

## 19. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2003 HK\$'000	2002 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	609,171	1,211,952
Less: Progress billings to date	<b>(622,273)</b>	(1,226,244)
	<b>(13,102)</b>	(14,292)
Included in current assets/(liabilities) under the following captions:		
Gross amounts due from customers for contract work	3,261	13,055
Gross amounts due to customers for contract work	<b>(16,363)</b>	(27,347)
	<b>(13,102)</b>	(14,292)

As at 31 December 2003, retentions held by customers for contract work included in non-current retention receivables and trade and other receivables of the Group under Note 18 amounted to approximately HK\$607,000 (2002: HK\$3,488,000) and HK\$3,883,000 (2002: HK\$18,313,000), respectively.

## 20. TRADING SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
At fair value:		
Equity securities listed in Hong Kong	2,142	7,738
Equity securities listed overseas	–	12,905
	<b>2,142</b>	20,643
Quoted market value of listed securities	<b>2,142</b>	20,643

**21. CASH AND BANK DEPOSITS**

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deposits with banks (a)	<b>199,126</b>	210,514	<b>176,032</b>	168,320
Cash on hand	<b>162</b>	126	–	–
	<b>199,288</b>	210,640	<b>176,032</b>	168,320

- (a) As at 31 December 2002, included in deposits with banks was a net amount of approximately HK\$7,017,000, which represented the sum of principal and interest of a bank deposit net of a provision of HK\$4,700,000 for the irrecoverable portion, being frozen by a bank (the “Bank”) due to a dispute with the Bank. On 14 August 2003, a deed of compromise was entered into between the Company and the Bank to settle the dispute and such net amount was subsequently released by the Bank to the Company on 22 August 2003.

**22. TRADE AND OTHER PAYABLES**

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade, bills and contract payables (a)	<b>76,796</b>	121,181	<b>3,326</b>	85
Retention payables	<b>1,840</b>	7,590	–	–
Accruals and payable for construction costs	<b>28,756</b>	33,061	<b>3,924</b>	3,355
Provisions (b)	<b>17,176</b>	7,028	<b>50,078</b>	96,817
Temporary receipts	<b>165</b>	5,016	–	–
Rental deposits received	<b>1,131</b>	1,557	–	–
Others	<b>10,001</b>	15,277	–	–
	<b>135,865</b>	190,710	<b>57,328</b>	100,257

**22. TRADE AND OTHER PAYABLES** (cont'd)

(a) The aging analysis of trade, bills and contract payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 – 30 days	6,894	28,893
31 – 60 days	1,394	2,085
61 – 90 days	1,124	2,182
Over 90 days	67,384	88,021
	<b>76,796</b>	121,181

(b) Provisions

	Provision for a bank guarantee HK\$'000	Group Provision in respect of contract work HK\$'000	Total HK\$'000
At 1 January 2003	–	7,028	7,028
Addition	<b>10,148</b>	–	<b>10,148</b>
At 31 December 2003	<b>10,148</b>	<b>7,028</b>	<b>17,176</b>

Provision for a bank guarantee related to a guarantee in respect of banking facilities extended to a subsidiary which was deconsolidated during the year (see Note 29(b)).

**22. TRADE AND OTHER PAYABLES** (cont'd)

## (b) Provisions (cont'd)

Provision in respect of contract work represents claims served against the Group by subcontractors and other third parties in respect of certain contract work.

	<b>Company Provision for bank guarantees</b>
	HK\$'000
At 1 January 2003	96,817
Additions	<b>9,358</b>
Less: Amounts paid	<b>(56,097)</b>
At 31 December 2003	<b>50,078</b>

The amount represents provisions made for guarantees provided by the Company to various banks in respect of banking facilities extended to certain existing subsidiaries and a subsidiary which was deconsolidated during the year (see Note 29(b)).

**23. SHORT-TERM BORROWINGS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bank overdrafts, secured	<b>37,041</b>	67,444
Trust receipt bank loans, secured	<b>3,253</b>	26,024
Bank loans, secured	<b>26,455</b>	26,526
Current portion of long-term borrowings (see Note 24)	<b>28</b>	11,050
Loan from a minority investor (a)	<b>4,527</b>	3,320
	<b>71,304</b>	134,364

(a) The balance is unsecured, bearing interest at 5.31% per annum and is repayable in next year.

**24. LONG-TERM BORROWINGS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bank loans, secured	–	10,881
Obligations under finance leases (a)	<b>28</b>	227
	<b>28</b>	11,108
Current portion of long-term borrowings (see Note 23)	<b>(28)</b>	(11,050)
	–	58

The analysis of the Group's long-term borrowings is as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bank loans		
Wholly repayable within one year	–	10,881
Obligations under finance leases		
Wholly repayable within five years	<b>28</b>	227
	<b>28</b>	11,108

**24. LONG-TERM BORROWINGS** (cont'd)

(a) At 31 December 2003, the Group's finance lease liabilities were repayable as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Within one year	<b>35</b>	192
In the second to fifth years	–	64
	<b>35</b>	256
Future finance charges on finance leases	<b>(7)</b>	(29)
Present value of finance lease liabilities	<b>28</b>	227
The analysis of the present value of finance lease liabilities is as follows:		
Within one year	<b>28</b>	169
In the second to fifth years	–	58
	<b>28</b>	227

**25. DEFERRED TAXATION**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax assets in respect of tax losses during the year is as follows:

	<b>Group</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
At 1 January	<b>979</b>	–
Deferred taxation (charged)/credited to the profit and loss account (see Note 6)	<b>(47)</b>	979
At 31 December	<b>932</b>	979

**25. DEFERRED TAXATION** (cont'd)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2003, the Group had unrecognised tax losses in Hong Kong of approximately HK\$359,717,000 (2002: HK\$450,397,000) to carry forward against future taxable income; these tax losses have no expiry date. In addition, the Group had unrecognised tax losses in the PRC of approximately HK\$16,489,000 as at 31 December 2003 (2002: HK\$10,323,000); these tax losses will expire within 5 years.

**26. SHARE CAPITAL**

	2003		2002	
	No. of Shares '000	Amount HK\$'000	No. of Shares '000	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.1 each	2,000,000	200,000	2,000,000	200,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.1 each	772,182	77,218	772,182	77,218

## (a) Share options

On 29 May 2003, the Company adopted a new share option scheme ("**New Scheme**"). No options have been granted under the New Scheme during the period from the date of its adoption to 31 December 2003. On the same day, the old share option scheme adopted by the Company on 30 September 1993 ("**Old Scheme**") was terminated. There were no outstanding options granted under the New Scheme and the Old Scheme as at 31 December 2003 and 31 December 2002.

1. *Purpose of the New Scheme*

To recognise and acknowledge the contributions that the eligible person had made or may from time to time make to the Group whether in the past or in the future

2. *Participants of the New Scheme*

Any directors or any employees of any company of the Group and any advisers of, consultants of, contractors to any company of the Group or any person who has any relationship (whether business or otherwise) with any company of the Group or any person whom the Directors consider, in their sole discretion, has contributed or will contribute or can contribute to the Group



**26. SHARE CAPITAL** (cont'd)

## (a) Share options (cont'd)

3. *Maximum number of shares*

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time

4. *The period within which the shares must be taken up under an option*

The Directors may in their absolute discretion determine the period during which an option may be exercised and notify each grantee, save that such period shall not be later than 10 years from the date on which the Directors make an offer of the option subject to the provisions for early termination thereof

5. *The minimum period for which an option must be held before it can be exercised*

Not applicable

6. *Time of acceptance and the amount payable on acceptance of the option*

The offer of an option made in accordance with the New Scheme may be accepted within 28 business days from the date of the offer and the amount payable on acceptance of the option is HK\$10

7. *The basis of determining the subscription price*

The subscription price shall be determined by the Directors at the time of grant of the relevant option and shall not be less than the highest of:

- (i) the closing price per share of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on the date of the grant of the relevant option;
- (ii) the amount equivalent to the average closing price per share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the relevant option; and
- (iii) the nominal value of a share of the Company

**26. SHARE CAPITAL** (cont'd)

## (a) Share options (cont'd)

8. *The remaining life of the New Scheme*

The New Scheme was adopted on 29 May 2003 and will remain in force for a period of 10 years from the date of adoption

**27. RESERVES**

## (a) Group

Movements in the reserves during the year are as follows:

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	409,738	601,415	769	–	(453,021)	558,901
Exchange differences on translation of the accounts of foreign subsidiaries	–	–	–	–	153	153
Deficit on revaluation of non-trading securities	–	–	–	(360)	–	(360)
Loss for the year	–	–	–	–	(136,854)	(136,854)
At 31 December 2002	409,738	601,415	769	(360)	(589,722)	421,840
Exchange differences on translation of the accounts of foreign subsidiaries	–	–	–	–	(492)	(492)
Surplus on revaluation of non-trading securities	–	–	–	11,880	–	11,880
Loss for the year	–	–	–	–	(35,739)	(35,739)
At 31 December 2003	<b>409,738</b>	<b>601,415</b>	<b>769</b>	<b>11,520</b>	<b>(625,953)</b>	<b>397,489</b>

**27. RESERVES** (cont'd)

## (b) Company

Movements in the reserves during the year are as follows:

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Capital redemption reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	409,738	575,220	769	(409,257)	576,470
Loss for the year	–	–	–	(95,633)	(95,633)
At 31 December 2002	409,738	575,220	769	(504,890)	480,837
Profit for the year	–	–	–	<b>1,567</b>	<b>1,567</b>
At 31 December 2003	<b>409,738</b>	<b>575,220</b>	<b>769</b>	<b>(503,323)</b>	<b>482,404</b>

- (c) Contributed surplus mainly represents the excess of the fair value of shares in ONFEM Investments Limited acquired by the Company over the nominal value of the new shares of the Company issued pursuant to the Share Exchange Agreement dated 19 November 1991.

Under the Companies Act of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities, issued share capital and share premium account.

- (d) At 31 December 2003, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK\$72,666,000 (2002: HK\$71,099,000).

## 28. PENSION OBLIGATIONS

The Group participates in a defined contribution pension scheme and a Mandatory Provident Fund (the “**MPF**”) for the eligible employees in Hong Kong.

A defined contribution pension scheme is provided to certain eligible employees (the “**Employees**”) employed by the Group. The Group is required to make monthly contributions to the scheme at 5% of the employees’ monthly salary. Employees under the defined contribution scheme is entitled to 100% of the employer’s contributions and the accrued interest upon retirement or leaving the Group after completing ten years of service from the date of joining the Group, or at a scale of between 30% and 90% after completing three to nine years of service from the date of joining the Group.

With the introduction of the MPF, a defined contribution scheme managed by independent trustees, by the Government of the HKSAR on 1 December 2000, each of the Hong Kong subsidiaries of the Group and those employees not eligible to join the pension scheme make monthly contributions to the MPF at 5% of the employees’ cash income as defined under the MPF legislation. Contributions by both of the Hong Kong subsidiaries and their employees are subject to a maximum of HK\$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The mandatory contribution under the MPF are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

The Group’s contributions are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Forfeited contributions totalling approximately HK\$302,000 (2002: HK\$519,000) were utilised during the year and there were no unutilised forfeited contributions available as at 31 December 2003.

As stipulated by rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC as determined by the local government, which is a defined contribution plan. The Group is required to contribute to the plan at a rate ranging from 5% to 22.5% of the basic salary of the PRC employees in addition to contributions by employees at a rate ranging from 5% to 7% of the basic salary as specified by the local government, and the Group has no further obligations for the actual payment of the pensions or post-retirement benefits beyond the annual contributions.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash generated from operations

	Note	2003 HK\$'000	2002 HK\$'000
Loss before taxation		<b>(37,194)</b>	(136,225)
Interest income		<b>(4,090)</b>	(6,041)
Interest expense		<b>4,860</b>	7,703
Depreciation		<b>3,496</b>	4,846
Loss on revaluation of investment properties		<b>8,250</b>	27,378
Impairment loss of fixed assets		<b>1,282</b>	9,394
Loss/(gain) on disposal of fixed assets		<b>108</b>	(959)
Gain on deconsolidation of subsidiaries	29(b)	<b>(38,747)</b>	–
Dividend income from listed investments		<b>(788)</b>	(1,058)
Provision for impairment in value of other assets		<b>525</b>	–
Provision for properties under development		<b>11,276</b>	–
Provision for inventory obsolescence and net realisable value		<b>1,878</b>	1,171
Provision for bad and doubtful debts		<b>2,000</b>	7,031
Provision for gross amounts due from customers for contract work		<b>1,573</b>	347
Realised gain on disposal of trading securities		<b>(5,474)</b>	(354)
Unrealised gain on revaluation of trading securities		<b>(347)</b>	(1,319)
		<b>(51,392)</b>	(88,086)
Operating loss before working capital changes			
Decrease/(increase) in retention receivables, non-current portion		<b>2,881</b>	(3,488)
Decrease/(increase) in other assets		<b>63</b>	(53)
(Increase)/decrease in inventories		<b>(3,029)</b>	20,695
Decrease/(increase) in amounts due from fellow subsidiaries		<b>79</b>	(39)
Decrease in amounts due from minority investors		<b>–</b>	5,478
Decrease in trade and other receivables		<b>42,969</b>	40,220
Decrease in gross amounts due from/to customers for contract work, net		<b>1,626</b>	15,608
Decrease in pledged deposits		<b>35,936</b>	30,994
Decrease in frozen deposits		<b>7,017</b>	28,983
Decrease in amount due to intermediate holding company		<b>(3)</b>	(3)
Increase in amounts due to minority investors		<b>2,640</b>	589
Decrease in trade and other payables		<b>(6,045)</b>	(34,289)
(Decrease)/increase in other liabilities		<b>(554)</b>	638
Exchange adjustments		<b>(748)</b>	3
		<b>31,440</b>	17,250

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

## (b) Deconsolidation of subsidiaries

	Note	2003 HK\$'000
Net liabilities at the date of deconsolidation		
Fixed assets		3,376
Properties held for sale		2,709
Trade and other receivables		9,851
Amounts due from minority investors		1,861
Pledged deposits		12,458
Cash and bank deposits		3,492
Amounts due to minority investors		(5,075)
Trade and other payables		(58,888)
Gross amounts due to customers for contract work		(4,389)
Taxation payable		(1,738)
Dividend payable		(1,836)
Short-term bank loans	29(d)	(10,754)
Bank overdrafts		(11,801)
		<b>(60,734)</b>
Provision for bank guarantees	22(b)	10,148
Settlement of liabilities for deconsolidated subsidiaries	29(c)	11,839
		<b>(38,747)</b>

On 8 September 2003, an adjourned hearing was held at the High Court of the HKSAR (the "Court") and winding-up orders against Condo Curtain Wall Company Limited ("CCW") and Condo Engineering (China) Limited ("CEC"), both being 52%-owned subsidiaries of the Company, were made by the Court on the same date. Accordingly, the Company has not included CCW and CEC and their subsidiaries in its consolidated results since 8 September 2003, the date the orders came into force.

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (cont'd)

## (b) Deconsolidation of subsidiaries (cont'd)

During the year, the Group settled certain bank borrowings totaling approximately HK\$57,672,000 on behalf of CCW and CEC, of which HK\$11,839,000 was settled subsequent to 8 September 2003. Such amounts were previously secured by certain assets of the Group. The Group made a further provision of approximately HK\$10,148,000 for the amount of guarantee provided in respect of banking facilities extended to a deconsolidated subsidiary (see Note 22(b)).

The consolidated turnover and the net loss attributable to shareholders of the Group contributed by the subsidiaries deconsolidated for the year ended 31 December 2003 amounted to HK\$10,586,000 and HK\$7,881,000, respectively (2002: HK\$11,114,000 and HK\$43,640,000 respectively).

## (c) Analysis of net outflow of cash and bank deposits in respect of the deconsolidation of subsidiaries

	Note	2003 HK\$'000
Settlement of liabilities for deconsolidated subsidiaries	29(b)	(11,839)
Cash and cash equivalents deconsolidated		8,309
Net cash used		(3,530)

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (cont'd)

(d) Analysis of changes in financing during the year

	<b>Short-term and long-term borrowings<sup>(i)</sup></b>
	HK\$'000
At 1 January 2002	100,196
New borrowings	3,416
Repayment of borrowings	(61,002)
Transfer to amounts due to minority investors	(1,656)
	<hr/>
At 31 December 2002	40,954
New borrowings	<b>3,600</b>
Repayment of finance lease obligations	<b>(199)</b>
Transfer from amounts due to minority investors	<b>950</b>
Exchange differences	<b>(288)</b>
Deconsolidation of subsidiaries (see Note 29(b))	<b>(10,754)</b>
	<hr/>
At 31 December 2003	<b>34,263</b>

<sup>(i)</sup> As at 31 December 2003, short-term and long-term borrowings above exclude bank overdrafts.

(e) Cash and cash equivalents

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cash and bank deposits (excluding frozen deposits)	<b>199,288</b>	203,623
Bank overdrafts, secured	<b>(37,041)</b>	(67,444)
Trust receipt bank loans, secured	-	(26,024)
	<hr/>	<hr/>
	<b>162,247</b>	110,155



### 30. BANKING FACILITIES

The Group's aggregate banking facilities as at 31 December 2003 were approximately HK\$81,256,000 (2002: HK\$163,823,000), of which the unused facilities as at the same date amounted to approximately HK\$13,146,000 (2002: HK\$9,251,000). Securities for the facilities include:

- (a) fixed deposits of the Group of approximately HK\$53,210,000 (2002: HK\$101,604,000) and of the Company of approximately HK\$25,096,000 (2002: HK\$56,574,000);
- (b) an investment property with carrying amount of approximately HK\$195,000,000 (2002: HK\$206,422,000);
- (c) certain of the Group's inventories held under trust receipt loan arrangements; and
- (d) corporate guarantees given by the Company and certain of its subsidiaries.

### 31. COMMITMENTS

- (a) Capital commitments of the Group outstanding at 31 December 2003 were as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Contracted but not provided for – properties under development	<b>145,814</b>	142,385

At 31 December 2003, the Company did not have any outstanding capital commitments (2002: Nil).

- (b) At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Total future minimum lease payments payable:		
Within one year	<b>2,823</b>	3,182
After one year but within five years	<b>3,299</b>	6,149
After five years	<b>3,772</b>	4,587
	<b>9,894</b>	13,918

At 31 December 2003, the Company did not have any operating lease commitments (2002: Nil).

**31. COMMITMENTS** (cont'd)

- (c) The Group leases out investment properties under operating leases which generally run for a period of one to five years. None of the leases includes contingent rentals.

At 31 December 2003, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Not later than one year	<b>9,621</b>	10,043
Later than one year and not later than five years	<b>8,828</b>	8,786
	<b>18,449</b>	18,829

At 31 December 2003, the Company did not have any outstanding commitments for lease receipts (2002: Nil).

**32. CONTINGENT LIABILITIES**

At 31 December 2003, there were contingent liabilities in respect of the following:

- (a) The Group undertook to discharge the obligations of a bank under a performance bond issued by the bank in respect of a construction contract of the Group, which amounted to approximately HK\$1,356,000 (2002: HK\$15,840,000).
- (b) The Company had outstanding corporate guarantees to various banks in respect of banking facilities extended to certain existing subsidiaries amounted to approximately HK\$54,900,000 (2002: HK\$106,900,000). As at 31 December 2003, the Company had a total provision of approximately HK\$39,930,000 (2002: HK\$96,817,000) in respect of such corporate guarantees in the Company's accounts (see Note 22(b)).
- (c) The Group has undertaken and performed electrical and mechanical engineering work for various customers in Hong Kong and the PRC. In respect of such projects, the Group could have potential additional charges arising from the related tax payables. Since the amount of the potential additional charges, if any, cannot be reliably determined, no provision was made by the Group.

**33. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) The Group had the following material transactions with a related party, which were carried out on normal commercial terms and in the ordinary and normal course of business of the Group:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Sharing of administrative costs by intermediate holding company	–	626
Rental expenses paid to a fellow subsidiary	<b>857</b>	–

- (b) The amount due from a fellow subsidiary is unsecured, non-interest bearing and has no fixed repayment terms.

**34. LOANS TO SUBSIDIARIES**

	<b>Company</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Loans to subsidiaries	<b>2,544</b>	18,489
Less: Provision for loans to subsidiaries	<b>(2,544)</b>	(13,823)
	–	4,666

The loans to subsidiaries are unsecured, bear interest at commercial lending rates and will become repayable in next year.

**35. ULTIMATE HOLDING COMPANY**

The Directors consider the ultimate holding company to be China National Metals and Minerals Import and Export Corporation, a company incorporated in the PRC, which changed its name to China Minmetals Corporation on 18 January 2004.

**36. SUBSEQUENT EVENTS**

On 8 January 2004, a wholly owned subsidiary of the Company entered into an agreement for the purchase of the remaining 20% equity interest in ZOBHP (see Note 13(c)(iv)) for a consideration of approximately RMB12,859,000 (equivalent to approximately HK\$11,895,000). The consideration of the acquisition was paid in full and ZOBHP has become a wholly owned subsidiary of the Company since 20 February 2004.

**37. APPROVAL OF ACCOUNTS**

The accounts were approved by the Board of Directors on 19 April 2004.