

## 1. ORGANISATION AND OPERATIONS

ONFEM Holdings Limited (“**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 14 to the accounts.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The accounts of the Company and its subsidiaries (“**Group**”) have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). 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.

### (b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“**new HKFRSs**”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (c) 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 a 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.

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/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

### (c) Consolidation *(cont'd)*

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.

### (d) 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.

Goodwill on acquisition is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5-10 years.

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

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

### (e) Revenue recognition

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

Revenue from the sales of goods is recognised upon 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)*

### (e) 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.

### (f) 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.

#### (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.

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

### (f) Fixed assets (cont'd)

#### (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% – 25%
Furniture, fixtures and equipment	15% – 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.

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 or accumulated losses and is shown as a movement in reserves.

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

### (g) 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 or 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.

### (h) 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 the anticipated sales proceeds estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred on disposal.

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

### (i) 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.

### (j) 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.

The aggregate of the costs incurred and the profit or 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.

### (k) 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 and bank overdrafts.

### (l) 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.

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

### (m) 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.

### (n) 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.

### (o) 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.

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

### (o) Employee benefits *(cont'd)*

#### (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.

#### (iii) Share options

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.

### (p) 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.



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

### (q) **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.

### (r) **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 sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (s) **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 based on geographical locations of the assets.

### 3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in specialised construction contracting, manufacturing and trading, property leasing, property development and securities investment and trading.

	2004 HK\$'000	2003 HK\$'000
<b>(a) Turnover</b>		
Specialised construction contracting	20,421	86,056
Manufacturing and trading	55,115	57,797
Property leasing	10,620	10,826
Securities investment and trading	449	6,262
	<b>86,605</b>	160,941
<b>(b) Other revenue</b>		
Interest income from bank deposits	2,276	3,951
Interest income from loans to a deconsolidated subsidiary	107	139
Others	–	411
	<b>2,383</b>	4,501
Total revenue	<b>88,988</b>	165,442

### 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:

Specialised construction contracting:	Design and installation of curtain walls and aluminium windows, as well as provision of construction project management services and other construction work related 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.
Securities 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

	Specialised construction contracting		Manufacturing and trading		Property leasing		Property development		Securities investment and trading		Elimination		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Revenue</b>														
Sales to external customers	20,421	86,056	55,115	57,797	10,620	10,826	-	-	449	6,262	-	-	86,605	160,941
Inter-segment sales	-	-	-	1,139	-	-	-	-	-	-	-	(1,139)	-	-
	20,421	86,056	55,115	58,936	10,620	10,826	-	-	449	6,262	-	(1,139)	86,605	160,941
<b>Result</b>														
Segment results	731	(38,176)	(754)	(3,671)	30,659	(4,657)	(19,897)	(10,936)	708	6,300	-	-	11,447	(51,140)
Gain on deconsolidation of subsidiaries													78,707	38,747
Write-back of provision for a bank guarantee													10,148	-
Unallocated corporate expenses, net													(13,326)	(19,941)
Operating profit/(loss)													86,976	(32,334)
Finance costs													(1,385)	(4,860)
Taxation													(977)	(95)
Minority interests													-	1,550
Profit/(loss) attributable to shareholders													84,614	(35,739)

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

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

Segment balance sheet and other segment information

	Specialised construction contracting		Manufacturing and trading		Property leasing		Property development		Securities investment and trading		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment balance sheet</b>												
Segment assets	78,432	30,015	27,858	27,925	235,458	208,515	245,218	212,179	31,177	32,296	618,143	510,930
Unallocated corporate assets											117,310	266,072
Total assets											735,453	777,002
Segment liabilities	47,136	92,641	8,788	10,353	5,017	3,484	34,860	35,144	-	-	95,801	141,622
Unallocated corporate liabilities											74,870	129,895
Total liabilities											170,671	271,517
<b>Other information</b>												
Capital expenditure	174	633	918	1,039	29	57	21	145	-	-		
Depreciation	172	874	1,841	1,992	73	46	204	229	1	3		
Impairment loss recognised in the profit and loss account	88	546	1,798	477	-	-	-	-	-	-		
Non-cash expenses/(income) other than depreciation	997	3,403	386	3,715	(23,066)	8,488	25,000	11,276	(347)	(347)		

#### (d) Secondary reporting format – geographical segments

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

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

#### (d) Secondary reporting format – geographical segments *(cont'd)*

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

Hong Kong and Macau: specialised construction contracting, manufacturing and trading, property leasing and securities investment and trading

The PRC: specialised construction contracting, manufacturing and trading, property leasing and property development

Southeast Asian countries: manufacturing and trading

In presenting information on the basis of geographical segments, sales 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		Southeast Asian countries		Other countries		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
External sales	<b>16,483</b>	98,446	<b>69,765</b>	62,213	<b>357</b>	282	-	-	<b>86,605</b>	160,941
Segment assets	<b>290,552</b>	285,199	<b>327,578</b>	225,699	-	-	<b>13</b>	32	<b>618,143</b>	510,930
Capital expenditure	<b>2,645</b>	1,096	<b>961</b>	976	-	-	-	-	<b>3,606</b>	2,072

#### 4. OPERATING PROFIT/(LOSS)

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

	2004 HK\$'000	2003 HK\$'000
Gross rental and management fee income from investment properties	<b>(10,620)</b>	(10,826)
Less: Outgoings	<b>2,185</b>	2,039
	<b>(8,435)</b>	(8,787)
Cost of inventories sold	<b>27,245</b>	24,640
Pension scheme contributions, net of forfeited contributions	<b>991</b>	1,587
Operating leases in respect of land and buildings	<b>3,894</b>	4,117
Less: Amount capitalised in properties under development	<b>(260)</b>	(175)
	<b>3,634</b>	3,942
Auditors' remuneration	<b>1,540</b>	1,850
Exchange gain, net	<b>(1,129)</b>	(9,146)
(Gain)/loss on disposal of fixed assets	<b>(294)</b>	108
Impairment loss of fixed assets	<b>1,393</b>	1,282
Depreciation on		
Owned fixed assets	<b>3,333</b>	3,447
Leased fixed assets	<b>–</b>	49
	<b>3,333</b>	3,496
Less: Amount capitalised in properties under development	<b>(204)</b>	(175)
	<b>3,129</b>	3,321
Staff costs (excluding Directors' emoluments, see Note 10)	<b>29,609</b>	36,847
(Write-back of provision)/provision for inventory obsolescence	<b>(636)</b>	1,878
(Write-back of provision)/provision for bad and doubtful debts (a)	<b>(9,295)</b>	2,000
Gain on assignment of benefit of debt by a former minority investor (b)	<b>(3,051)</b>	–
Amortisation of goodwill and negative goodwill (see Note 12)	<b>(3,954)</b>	–
Unrealised gain on revaluation of trading securities	<b>(347)</b>	(347)

#### 4. OPERATING PROFIT/(LOSS) (cont'd)

- (a) An amount of approximately HK\$3,603,000 (2003: 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 included in the write-back of provision for bad and doubtful debts. The said amount was received during the year from the liquidators of CNMG as interim dividends to the unsecured creditors of CNMG.
- (b) On 29 April 2004, the Group acquired the remaining 48% equity interest of Enful Holdings Limited ("**EHL**"), a subsidiary incorporated in the British Virgin Islands, at a cash consideration of HK\$1. As a result of the acquisition, EHL has turned from a 52% owned subsidiary into a wholly owned subsidiary of the Company. In addition, the Group paid HK\$1 to the former minority investor of EHL for the assignment of the benefit of debt owed by a subsidiary of EHL of approximately HK\$3,051,000 from the former minority investor of EHL to the Group.

#### 5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Bank loans and overdrafts		
Wholly repayable within five years	2,773	6,197
Loans from minority investors		
Wholly repayable within five years	–	224
Other loans		
Wholly repayable within five years	316	–
Finance leases	6	21
	<b>3,095</b>	6,442
Less: Borrowing costs capitalised in properties under development (a)	<b>(1,710)</b>	(1,582)
	<b>1,385</b>	4,860

- (a) Borrowing costs were capitalised at a rate from 5.31% to 5.58% (2003: 5.31%) 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 (2003: 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:

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
Over-provision in prior years	–	(109)
Overseas taxation	977	157
Deferred taxation relating to the reversal of temporary differences (see Note 24)	–	47
<b>Taxation charge</b>	<b>977</b>	<b>95</b>

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

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	85,591	(37,194)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	14,978	(6,509)
Effect of different taxation rates in other countries	758	3,507
Income not subject to taxation	(22,587)	(38,303)
Expenses not deductible for taxation purposes	7,322	32,934
Unrecognised tax losses	506	8,557
Increase in net deferred tax assets arising from an increase in taxation rate	–	(91)
<b>Taxation charge</b>	<b>977</b>	<b>95</b>

## 7. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Consolidated profit/(loss) attributable to shareholders includes a profit of approximately HK\$21,278,000 (2003: HK\$1,567,000) which has been dealt with in the accounts of the Company.

## 8. DIVIDENDS

The directors of the Company (“**Directors**”) do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

## 9. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated based on the consolidated profit attributable to shareholders of approximately HK\$84,614,000 (2003: consolidated loss attributable to shareholders of approximately HK\$35,739,000) and the weighted average number of 772,181,783 shares (2003: 772,181,783 shares) in issue during the year.

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

## 10. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Excluding Directors' remuneration:		
Wages	28,684	35,346
Provision for unutilised annual leave	20	296
Write-back of provision for long service payment	(86)	(322)
Pension costs – defined contribution plans	991	1,527
	29,609	36,847

## 11. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

### (a) Directors' emoluments

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

	2004 HK\$'000	2003 HK\$'000
Executive Directors		
Salaries and allowances	4,654	5,314
Pension scheme contributions	60	60
Independent Non-executive Directors		
Fees	910	910
	5,624	6,284

During the year, 12,000,000 share options (2003: Nil) were granted to the Executive Directors under the share option scheme adopted on 29 May 2003 (see Note 25(a)).

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

	2004	2003
Nil to HK\$1,000,000	5	7
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	–	–
HK\$2,000,001 – HK\$2,500,000	1	1
	8	10

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 (2003: Nil) and no Directors have waived their emoluments in respect of their services to the Group for the year (2003: Nil).

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

### (b) Five highest-paid individuals

The five highest-paid individuals included three (2003: three) Executive Directors whose emoluments are disclosed in (a) above. Details of the emoluments of the other two (2003: two) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	2,259	2,964
Pension scheme contributions	198	214
	2,457	3,178

The range of the emoluments of the other two (2003: two) highest-paid individuals is as follows:

	2004	2003
Nil to HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	1	2
	2	2

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 (2003: Nil).

## 12. GOODWILL

Goodwill and negative goodwill arising from acquisitions are as follows:

	<b>Goodwill</b> (Note 28(c)) HK\$'000	<b>Group Negative goodwill</b> (Note 28(b)) HK\$'000	<b>Net</b> HK\$'000
Cost			
Additions during the year and at 31 December 2004	<b>20,275</b>	<b>(12,738)</b>	<b>7,537</b>
Accumulated amortisation (Charge)/credit during the year and at 31 December 2004	<b>(1,317)</b>	<b>5,271</b>	<b>3,954</b>
Net carrying value At 31 December 2004	<b>18,958</b>	<b>(7,467)</b>	<b>11,491</b>

### 13. FIXED ASSETS

(a) Movements in fixed assets during the year are as follows:

	Group						
	Investment properties	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1 January 2004	206,510	10,985	9,334	10,956	11,311	5,856	254,952
Additions	-	-	2,273	157	637	539	3,606
Revaluation surplus	23,633	-	-	-	-	-	23,633
Transfers	(253)	(910)	-	(929)	929	-	(1,163)
Exchange difference	-	-	-	-	3	9	12
Acquisition of a subsidiary (see Note 28(c))	-	-	-	-	88	-	88
Deconsolidation of subsidiaries	-	-	(1,974)	-	(4,544)	(610)	(7,128)
Other disposals	-	-	(278)	(2,599)	(2,948)	(1,027)	(6,852)
At 31 December 2004	229,890	10,075	9,355	7,585	5,476	4,767	267,148

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

(a) (cont'd)

	Group						
	Investment properties	Leasehold land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation and impairment losses							
At 1 January 2004	-	3,265	8,108	8,530	9,788	4,782	34,473
Charge for the year	-	175	1,533	510	506	609	3,333
Transfers	-	(1,163)	-	(702)	702	-	(1,163)
Impairment loss, net	-	1,305	-	-	88	-	1,393
Exchange difference	-	-	-	-	-	4	4
Deconsolidation of subsidiaries	-	-	(1,974)	-	(4,544)	(610)	(7,128)
Other disposals	-	-	(278)	(2,538)	(2,875)	(975)	(6,666)
At 31 December 2004	-	3,582	7,389	5,800	3,665	3,810	24,246
Net book value							
At 31 December 2004	229,890	6,493	1,966	1,785	1,811	957	242,902
At 31 December 2003	206,510	7,720	1,226	2,426	1,523	1,074	220,479
Analysis of cost or valuation at 31 December 2004 of the above assets is as follows:							
At cost	-	10,075	9,355	7,585	5,476	4,767	37,258
At professional valuation – 2004	229,890	-	-	-	-	-	229,890
	229,890	10,075	9,355	7,585	5,476	4,767	267,148

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

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

	Investment properties		Leasehold land and buildings	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In Hong Kong				
Long-term leases (over 50 years)	<b>228,100</b>	202,930	<b>1,873</b>	2,970
In the PRC				
Long-term leases (over 50 years)	<b>1,790</b>	3,580	<b>1,781</b>	–
Medium-term leases (10-50 years)	–	–	<b>2,839</b>	4,750
	<b>229,890</b>	206,510	<b>6,493</b>	7,720

(c) The investment properties were revalued at 31 December 2004 by independent firms of surveyors, Savills (Hong Kong) Limited and Dudley Surveyor Limited, on an open market value basis. Revaluation surplus of approximately HK\$23,033,000 (2003: deficit of approximately HK\$8,250,000) and HK\$600,000 (2003: Nil) has been credited to the profit and loss account and revaluation reserves, respectively.

(d) An investment property with a carrying amount of approximately HK\$215,000,000 (2003: HK\$195,000,000) is mortgaged as collateral for the Group's banking facilities (see Note 29).



#### 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted share investments, 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>51,928</b>	49,725
Less: Provision for loans to subsidiaries	<b>(47,800)</b>	(45,726)
	<b>4,128</b>	3,999
Amounts due from subsidiaries (b)	<b>1,003,855</b>	917,145
Less: Provision for amounts due from subsidiaries	<b>(511,674)</b>	(514,456)
	<b>492,181</b>	402,689
	<b>496,309</b>	406,688

(a) Included in the loans to subsidiaries are loans to subsidiaries of approximately HK\$47,800,000 (2003: HK\$2,587,000) which are 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.

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

(c) The following is a list of the principal subsidiaries at 31 December 2004:

Name of company	Place of incorporation/ operations	Particulars of issued or registered and paid up capital (i)	Percentage of equity		Principal activities
			Directly held by the Company	Indirectly held by the Company	
Best Pearl Development Limited	Hong Kong	1,000 shares of HK\$1 each	–	100	Property investment
Brena Company Limited	Hong Kong	500,000 shares of HK\$1 each	–	100	Provision of management services
Bright Circle Limited	Hong Kong	10,000 shares of HK\$1 each	–	100	Property investment
Dongguan Bridgman Fire Doors Limited (ii)	PRC	RMB12,062,711	–	75	Manufacturing of fire proof doors
Eastrend (Hong Kong) Limited	Hong Kong	2 shares of HK\$1 each	–	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	–	100	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	–	100	Investment holding
Full Pacific Limited	Hong Kong	2 shares of HK\$1 each	–	100	Property investment

**14. 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
			Directly held by the Company	Indirectly held by the Company	
Geraldine Profits Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	–	100	Securities trading
Great Way Properties Limited	Hong Kong/PRC	2 shares of HK\$1 each	–	100	Property investment
Jaeger Development Limited	British Virgin Islands	1 share of US\$1	–	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	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	Investment holding
King Life Development Limited	Hong Kong	1,000 shares of HK\$1 each	–	100	Provision of financing for other Group companies
Linkcheer Limited	Hong Kong	2 shares of HK\$1 each	–	100	Property investment
ONFEM Company Limited	Hong Kong	2 shares of HK\$1 each	–	100	Investment holding
ONFEM Finance Limited	British Virgin Islands/ Hong Kong	1,000 shares of US\$1 each	100	–	Provision of financing for other Group companies

**14. 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
			Directly held by the Company	Indirectly held by the Company	
ONFEM Investments Limited	British Virgin Islands/ Hong Kong	100 shares of US\$10 each	100	–	Investment holding
Shanghai Jin Qiao Condo Decoration Engineering Company Limited (iii)	PRC	US\$2,040,000	–	100	Design and installation of curtain walls
Tinnex Management Limited	Hong Kong	2 shares of HK\$1 each	–	100	Property management
Top Gain Properties Limited	Hong Kong/PRC	2 shares of HK\$1 each	–	100	Property investment
Virtyre Limited	Hong Kong	2 shares of HK\$10 each	–	100	Property investment
Wilson Murray Far East Limited	Hong Kong	100 shares of HK\$10 each	–	100	Provision of construction project management services
Zhuhai (Oriental) Blue Horizon Properties Company Limited (iv)	PRC	RMB44,000,000	–	100	Property development

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

(c) (cont'd)

- (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 2004.
- (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 wholly owned 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) Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**"), a wholly owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 15 years extending to 2008.
- (iv) Zhuhai (Oriental) Blue Horrison Properties Company Limited ("**ZOBHP**"), a wholly owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 8 years extending to 2007.

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

#### 15. NON-TRADING SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities:		
Listed in Hong Kong, at fair value	<b>28,440</b>	28,440
Unlisted, at cost	<b>243,600</b>	243,600
Less: Provision for impairment in value	<b>(243,600)</b>	(243,600)
	-	-
	<b>28,440</b>	28,440

## 16. OTHER ASSETS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Transferrable debentures	1,312	1,312	1,312	1,312
Others	404	426	-	-
	<b>1,716</b>	1,738	<b>1,312</b>	1,312

## 17. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Manufacturing and trading stocks		
Raw materials	5,603	5,212
Work in progress	196	231
Finished goods	3,542	10,601
	<b>9,341</b>	16,044
Less: Provision for inventory obsolescence	<b>(2,361)</b>	(8,465)
	<b>6,980</b>	7,579
Properties under development – located in the PRC	231,787	222,172
Less: Provision for net realisable value	<b>(36,276)</b>	(11,276)
	<b>195,511</b>	210,896
	<b>202,491</b>	218,475

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

## 18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade and contract receivables, net (a)	<b>31,672</b>	32,094	<b>–</b>	–
Retention receivables (see Note 19)	<b>15,023</b>	3,883	<b>–</b>	–
Deposits	<b>25,374</b>	1,529	<b>652</b>	910
Prepayments	<b>910</b>	1,002	<b>387</b>	462
Others	<b>10,511</b>	9,884	<b>13</b>	6,450
	<b>83,490</b>	48,392	<b>1,052</b>	7,822

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

	Group	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	<b>9,194</b>	28,233
31 – 60 days	<b>5,340</b>	5,715
61 – 90 days	<b>3,247</b>	5,559
Over 90 days	<b>33,148</b>	47,083
	<b>50,929</b>	86,590
Less: Provision for bad and doubtful debts	<b>(19,257)</b>	(54,496)
	<b>31,672</b>	32,094

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

A subsidiary of the Group entered into a construction contract with a contract sum of US\$7,743,000 (equivalent to approximately HK\$60,395,000). During the year, the employer of the respective construction project withheld the settlement of certain payments on the basis that there was a delay in the completion of the construction project. As at 31 December 2004, the amount of contract receivable and retention receivable in respect of this contract amounted to approximately HK\$10,129,000 and HK\$2,915,000 respectively. The Directors are of the opinion that the subsidiary has strong and valid defense against the claim of delay and there will be no material adverse effect on the financial position of the Group. Consequently, no provision has been made in respect of the amount receivables as at 31 December 2004.

## 19. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2004 HK\$'000	2003 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	16,954	609,171
Less: Progress billings to date	(16,080)	(622,273)
	<b>874</b>	(13,102)
Included in current assets/(liabilities) under the following captions:		
Gross amounts due from customers for contract work	1,684	3,261
Gross amounts due to customers for contract work	(810)	(16,363)
	<b>874</b>	(13,102)

As at 31 December 2004, retentions held by customers for contract work included in non-current retention receivables of the Group and trade and other receivables of the Group under Note 18 amounted to approximately HK\$879,000 (2003: HK\$607,000) and HK\$15,023,000 (2003: HK\$3,883,000), respectively.

As at 31 December 2004, progress payment from a related company included in gross amounts due to customers for contract work amounted to approximately HK\$810,000 (2003: Nil) (see Note 32(b)).

## 20. TRADING SECURITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
At fair value:		
Equity securities listed in Hong Kong	2,489	2,142



## 21. CASH AND BANK DEPOSITS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deposits with banks	120,703	199,126	75,457	176,032
Cash on hand	136	162	-	-
	<b>120,839</b>	199,288	<b>75,457</b>	176,032

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade, bills and contract payables (a)	75,301	76,796	-	3,326
Retention payables	6,436	1,840	-	-
Accruals and other payable	25,614	38,757	2,730	3,924
Provisions (b)	-	17,176	-	50,078
Temporary receipts	103	165	-	-
Rental deposits received	1,922	1,131	-	-
	<b>109,376</b>	135,865	<b>2,730</b>	57,328

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

	Group	
	2004 HK\$'000	2003 HK\$'000
0 – 30 days	14,024	6,894
31 – 60 days	11,504	1,394
61 – 90 days	1,151	1,124
Over 90 days	48,622	67,384
	<b>75,301</b>	76,796

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

(b) Provisions

	Provision for a bank guarantee <sup>(i)</sup> HK\$'000	Group Provision in respect of contract work HK\$'000	Total HK\$'000
At 1 January 2004	10,148	7,028	17,176
Less: Unused amounts reversed	<b>(10,148)</b>	<b>(7,028)</b>	<b>(17,176)</b>
At 31 December 2004	-	-	-

	Company Provisions for bank guarantees HK\$'000
At 1 January 2004	50,078
Less: Payments made during the year (see Note 28(d)) Unused amounts reversed	<b>(28,459)</b> <b>(21,619)</b>
At 31 December 2004	-

- (i) This amount represents the write-back of provision for a bank guarantee in respect of banking facilities extended to a subsidiary which was deconsolidated in the year ended 31 December 2003.

## 23. SHORT-TERM BORROWINGS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts, secured	<b>1,158</b>	37,041
Trust receipt bank loans, secured	-	3,253
Bank loans, secured	<b>35,247</b>	26,455
Current portion of obligation under finance leases	-	28
Loan from a minority investor	-	4,527
Loan from a former minority investor (a)	<b>6,726</b>	-
	<b>43,131</b>	71,304

- (a) The balance is unsecured, bearing interest at 5.58% per annum and is repayable in 2005.

## 24. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

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

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	932	979
Deferred taxation charged to the profit and loss account (see Note 6)	-	(47)
At 31 December	932	932

Deferred income tax assets are recognised for tax loss carried forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2004, the Group had unrecognised tax losses in Hong Kong of approximately HK\$260,816,000 (2003: HK\$359,717,000) 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\$26,588,000 as at 31 December 2004 (2003: HK\$16,489,000); these tax losses will expire within 5 years.

## 25. SHARE CAPITAL

	2004		2003	
	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

## 25. SHARE CAPITAL (cont'd)

(a) Share options

On 29 May 2003, the Company adopted a share option scheme under which the Directors may, at their discretion, invite any person who has contributed or will contribute to the Group to take up options at a nominal consideration of HK\$10 for each lot of share options granted. Details of the movement of the share options granted during the year are as follows:

Category of participant	Exercise period of share options	Exercise price HK\$	Number of share options ('000)			
			1 January 2004	Granted (i)	Lapsed	31 December 2004
Directors	16 March 2004 to 15 March 2007	0.83	–	12,000	–	12,000
Employees	17 March 2004 to 26 April 2007 (ii)	0.83	–	9,100	(200)	8,900
			–	21,100	(200)	20,900

- (i) Share options were firstly granted on 15 March 2004 under the share option scheme. Consideration received in respect of the share options granted during the year was HK\$240.
- (ii) The share options granted may be exercised during a three-year period commencing on the date of acceptance of the share options by each respective employee, and shall expire at the end of the three-year period.

## 26. RESERVES

(a) Group

Movements in the reserves during the year are as follows:

	Share premium HK\$'000	Contributed surplus <sup>(c)</sup> HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	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	409,738	601,415	769	11,520	-	(625,953)	397,489
Exchange differences on translation of the accounts of foreign subsidiaries	-	-	-	-	-	2,247	2,247
Surplus on revaluation of an investment property	-	-	-	-	600	-	600
Release of reserve upon liquidation of a subsidiary	-	(1,003)	-	-	-	-	(1,003)
Profit for the year	-	-	-	-	-	84,614	84,614
At 31 December 2004	409,738	600,412	769	11,520	600	(539,092)	483,947

## 26. RESERVES (cont'd)

(b) Company

Movements in the reserves during the year are as follows:

	Share premium HK\$'000	Contributed surplus <sup>(d)</sup> HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	409,738	575,220	769	(504,890)	480,837
Profit for the year	–	–	–	1,567	1,567
At 31 December 2003	409,738	575,220	769	(503,323)	482,404
Profit for the year	–	–	–	<b>21,278</b>	<b>21,278</b>
At 31 December 2004	<b>409,738</b>	<b>575,220</b>	<b>769</b>	<b>(482,045)</b>	<b>503,682</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 2004, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK\$93,944,000 (2003: HK\$72,666,000).

## 27. PENSION OBLIGATIONS

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

A defined contribution pension scheme is provided to certain eligible employees (“**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 20% and 90% after completing at least two but less than ten years of service from the date of joining the Group.

Under the MPF scheme, each of the Hong Kong subsidiaries of the Group and those employees not eligible to join the defined contribution 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. In additions to the mandatory contribution, employees are entitled to 100% of the employers’ voluntary contributions to the fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon death or ceasing to be an employee due to total incapacity. Employees are also entitled to the employers’ voluntary contributions to the fund plus investment earnings calculated at a scale of between 20% and 90% after completing a period of service of at least two but less than ten years.

The Group’s contributions to the pension scheme and the MPF scheme 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\$61,000 (2003: HK\$302,000) were utilised during the year and there were no unutilised forfeited contributions available as at 31 December 2004.

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. 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 made.

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash (used in)/ generated from operations

	Note	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation		85,591	(37,194)
Interest income		(2,383)	(4,090)
Interest expense		1,385	4,860
Depreciation		3,333	3,496
Amortisation of goodwill and negative goodwill		(3,954)	–
(Gain)/loss on revaluation of investment properties		(23,033)	8,250
Impairment loss of fixed assets		1,393	1,282
(Gain)/loss on disposal of fixed assets		(294)	108
Gain on deconsolidation of subsidiaries	28(d)	(78,707)	(38,747)
Provision for impairment in value of other assets		–	525
Provision for properties under development		25,000	11,276
(Write-back of provision)/provision for inventory obsolescence		(636)	1,878
(Write-back of provision)/provision for bad and doubtful debts		(9,295)	2,000
Provision for gross amounts due from customers for contract work		–	1,573
Realised gain on disposal of trading securities		–	(5,474)
Unrealised gain on revaluation of trading securities		(347)	(347)
Write-back of provision for a bank guarantee		(10,148)	–
Dividend income from listed investments		(499)	(788)
Gain on assignment of benefit of debt by a former minority investor		(3,051)	–
Operating loss before working capital changes		(15,645)	(51,392)
(Increase)/decrease in retention receivables, non-current portion		(272)	2,881
Decrease in other assets		22	63
Increase in inventories		(6,670)	(3,029)
Decrease in amount due from a fellow subsidiary		1	79
Decrease in amount due from a minority investor		37	–
(Increase)/decrease in trade and other receivables		(4,044)	42,969
Decrease in gross amounts due from/to customers for contract work, net		2,722	1,626
Decrease in pledged deposits		15,110	35,936
Decrease in frozen deposits		–	7,017
Decrease in amount due to intermediate holding company		–	(3)
(Decrease)/increase in amounts due to minority investors		(690)	2,640
Decrease in trade and other payables		(22,304)	(6,045)
Increase/(decrease) in other liabilities		649	(554)
Exchange adjustments		2,480	(748)
Net cash (used in)/generated from operations		(28,604)	31,440



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

(b) Acquisition of additional interest in a subsidiary

On 8 January 2004, the Group acquired the remaining 20% equity interest in ZOBHP at a cash consideration of approximately RMB12,589,000 (equivalent to approximately HK\$12,088,000). As a result of the acquisition, ZOBHP has turned from an 80% owned subsidiary into a wholly owned subsidiary of the Company. The negative goodwill arising from the above acquisition of approximately HK\$12,738,000 is amortised on a straight-line basis over the remaining weighted average useful life of non-monetary assets of 29 months.

(c) Acquisition of a subsidiary

	2004 HK\$'000
Net liabilities acquired	
Fixed assets	88
Trade and other receivables	43,532
Cash and bank deposits	9,650
Trade and other payables	(52,844)
Gross amounts due to customers for contract work	(6,644)
Short-term bank loans	(8,955)
	(15,173)
Goodwill	20,275
	5,102
Satisfied by	
Cash	5,102
	5,102

Goodwill arising on the acquisition of a subsidiary, SJQ, is amortised on a straight-line basis over the remaining operating period of SJQ of 46 months.

Analysis of the net cash inflow in respect of the acquisition of a subsidiary:

	2004 HK\$'000
Cash and bank deposits acquired	9,650
Less: cash consideration	(5,102)
	4,548

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Acquisition of a subsidiary (cont'd)

SJQ contributed approximately HK\$8,816,000 of turnover and approximately HK\$470,000 of loss attributable to shareholders of the Group for the period between the date of acquisition (8 October 2004) and the balance sheet date.

(d) Deconsolidation of subsidiaries

	Note	2004 HK\$'000	2003 HK\$'000
Net liabilities at the date of deconsolidation			
Fixed assets		–	3,376
Properties held for sale		–	2,709
Amounts due from minority investors		–	1,861
Trade and other receivables		<b>21,773</b>	9,851
Gross amounts due from customers for contract work		<b>1,019</b>	–
Pledged deposits		–	12,458
Cash and bank deposits		<b>323</b>	3,492
Amounts due to minority investors		<b>(1,843)</b>	(5,075)
Trade and other payables		<b>(55,612)</b>	(58,888)
Gross amounts due to customers for contract work		<b>(24,361)</b>	(4,389)
Taxation payable		<b>(17,968)</b>	(1,738)
Dividend payable		<b>(2,128)</b>	(1,836)
Short-term bank loans		–	(10,754)
Bank overdrafts		<b>(28,369)</b>	(11,801)
		<b>(107,166)</b>	(60,734)
Provision for bank guarantees		–	10,148
Settlement of liabilities for deconsolidated subsidiaries guaranteed by the Company	22(b)	<b>28,459</b>	11,839
Gain on deconsolidation of subsidiaries	28(a)	<b>(78,707)</b>	(38,747)

On 11 August 2004, the High Court of Hong Kong ordered Polycrown Engineering (Holdings) Limited ("PEHL"), a 51% owned subsidiary of the Company, to be wound up. Accordingly, the Group has not included PEHL and its subsidiaries in the consolidated accounts of the Group since 11 August 2004.

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Deconsolidation of subsidiaries (cont'd)

Analysis of net cash outflow in respect of the deconsolidation of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Settlement of liabilities for deconsolidated subsidiaries	<b>(28,459)</b>	(11,839)
Cash and cash equivalents deconsolidated		
Cash and bank deposits	<b>(323)</b>	(3,492)
Bank overdrafts	<b>28,369</b>	11,801
	<b>28,046</b>	8,309
Net cash outflow in respect of the deconsolidation of subsidiaries	<b>(413)</b>	(3,530)

For the year ended 31 December 2004, the deconsolidated subsidiaries contributed approximately HK\$3,641,000 (2003: HK\$68,084,000) of turnover and approximately HK\$1,689,000 (2003: HK\$25,580,000) of loss attributable to shareholders of the Group.

(e) Analysis of changes in financing during the year

	Short-term borrowings (excluding bank overdrafts) HK\$'000
At 1 January 2003	40,954
New borrowings	3,600
Repayment of borrowings	(199)
Transfer from amounts due to minority investors	950
Exchange differences	(288)
Deconsolidation of subsidiaries (see Note 28(d))	(10,754)
At 31 December 2003	34,263
New borrowings	<b>2,152</b>
Repayment of borrowings	<b>(3,845)</b>
Exchange differences	<b>448</b>
Acquisition of a subsidiary (see Note 28(c))	<b>8,955</b>
At 31 December 2004	<b>41,973</b>

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

(f) Cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and bank deposits	120,839	199,288
Bank overdrafts, secured	(1,158)	(37,041)
	<b>119,681</b>	162,247

## 29. BANKING FACILITIES

The Group's aggregate banking facilities as at 31 December 2004 were approximately HK\$50,262,000 (2003: HK\$81,256,000), of which the unutilised facilities as at the same date amounted to approximately HK\$13,295,000 (2003: HK\$13,146,000). Securities for the facilities include:

- (a) fixed deposits of the Group of approximately HK\$38,100,000 (2003: HK\$53,210,000) and of the Company of approximately HK\$9,500,000 (2003: HK\$25,096,000);
- (b) an investment property with a carrying amount of approximately HK\$215,000,000 (2003: HK\$195,000,000);
- (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.

### 30. COMMITMENTS

- (a) Capital commitments of the Group outstanding at 31 December 2004 were as follows:

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for – properties under development	<b>29,508</b>	145,814

The capital commitment as at 31 December 2003 included an amount of approximately HK\$116,522,000 in respect of a construction contract with a main contractor, which is currently under a litigation proceeding. Based on the current status of such proceeding, the Directors are of the opinion that the Group is no longer committed to carry on the contract. The Group is considering to appoint a new main contractor as replacement to carry out the remaining works for the development project. The amount to be committed under this arrangement has yet to be determined.

At 31 December 2004, the Company did not have any outstanding capital commitments (2003: Nil).

- (b) At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	<b>3,202</b>	2,823
Later than one year and not later than five years	<b>3,202</b>	3,299
After five years	<b>3,216</b>	3,772
	<b>9,620</b>	9,894

At 31 December 2004, the Company did not have any operating lease commitments (2003: Nil).

### 30. COMMITMENTS (cont'd)

- (c) The Group leases out investment properties under operating leases which generally run for an initial period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	9,382	9,621
Later than one year and not later than five years	7,919	8,828
	<b>17,301</b>	18,449

At 31 December 2004, the Company did not have any outstanding commitments for lease receipts (2003: Nil).

### 31. CONTINGENT LIABILITIES

At 31 December 2004, the Company had outstanding corporate guarantees provided to various banks in respect of banking facilities extended to certain existing subsidiaries amounting to approximately HK\$21,600,000 (2003: HK\$54,900,000).

### 32. 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.

The Group had the following material transactions and balances with related parties, which were carried out under normal commercial terms and in the ordinary and normal course of business of the Group:

	2004 HK\$'000	2003 HK\$'000
(a) Transactions with related parties		
Construction project management service income received from a related company	8,009	–
Rental expenses and license fees paid to fellow subsidiaries	968	857
(b) Balances with related parties		
Progress payment from a related company for construction project management services	810	–

### 33. ULTIMATE HOLDING COMPANY

The Directors consider the ultimate holding company to be China Minmetals Corporation, a company incorporated in the PRC.

### 34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 15 April 2005.