1. ORGANISATION AND OPERATIONS

ONFEM Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") is principally engaged in real estate development and project management, property leasing, specialised construction, manufacturing and trading, and securities investment and trading businesses. The Group's businesses participate in two 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, with a small portion of its income derived from other countries.

The Company is a limited liability company incorporated in Bermuda and acts as an investment holding company. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company on 12 April 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(a) Basis of preparation (Cont'd)

(i) Amendments to published standards and new interpretation effective in 2006

In 2006, the Group adopted the following amendments to standards and new interpretation, which are relevant to its operations:-

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the amendments to HKASs 19, 21, 39 and HKFRS 4, and the new HK(IFRIC)-Int 4 had no material impact on the consolidated financial statements.

(ii) New standards, amendment to existing standard and new interpretations, which are relevant to the Group's operations but are not yet effective and have not been early adopted by the Group

HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group will apply the above standards, amendment and interpretations from the accounting periods for which they are effective, but this is not expected to have material impact on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical result, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of completed properties

Sales of completed properties is recognised when title of the properties has passed to the purchaser.

(ii) Contract revenue

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

(iii) Operating lease rental income

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

(iv) Sales of goods

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.

(v) Sales of securities investments

The accounting policy for sales of securities investments is set out in Note 2(l).

(vi) Dividend income

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

(vii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Capitalisation of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(h) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives with annual rates as follows:

Leasehold land and 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%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Investment properties

Property that is held for long-term yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings.

Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(k) Impairment

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Financial assets (Cont'd)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss which are initially recognised at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement within other income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue when the Group's right to receive payment is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses from securities investment. Dividends on available-for-sale equity instruments are recognised in the income statement as part of revenue when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) Inventories

(i) Manufacturing and trading

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(ii) Properties under development

Properties under development represent interests in land and buildings under construction.

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the lease term. If the property is in the course of development or re-development, the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised as an expense immediately.

Properties under development 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, other direct development costs attributable to such properties, including borrowing costs capitalised, and an appropriate proportion of overheads. Net realisable value is the anticipated sales proceeds estimated by the directors based on prevailing market prices, on an individual property basis, less estimated costs to completion and costs to be incurred in selling the property.

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the provision is recognised in the income statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of 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 Group uses the "percentage of completion method" to determine the appropriate amount to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amounts due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within trade and other receivables and non-current retention receivables for those falling due more than 12 months after the balance sheet date.

The Group presents as a liability the gross amounts due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(p) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(q) Share capital

Ordinary shares are classified as equity.

(r) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(s) Deferred tax

Deferred tax 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 financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

(t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

Group companies participate in various defined contribution pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(t) Employee benefits (Cont'd)

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(u) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(v) Provisions and contingent liabilities

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 the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3. FINANCIAL RISK FACTORS AND MANAGEMENT

The Group is exposed to foreign exchange, credit, liquidity and interest rate risks arising in its normal course of business. These risks are managed by the Group's financial management policies and practices as described below to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group invests substantially in the PRC and is exposed to foreign exchange risk with respect to Renminbi ("RMB"). Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations. The expected appreciation of RMB will benefit the Group as a whole.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and it has no significant concentration of credit risk. Management has a credit policy in place and the exposures to credit risk are monitored on an ongoing basis.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. Management aims to maintain flexibility in funding by keeping credit lines available.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings which bear variable rates and expose the Group to cash flow interest rate risk. The Group maintains a close relationship and communicates regularly with its finance providers to explore financing alternatives to monitor and mitigate interest rate risk.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing uncertainty to the carrying amounts of assets and liabilities are discussed below:

(a) Investment properties

Vigers Appraisals & Consulting Limited was engaged to carry out an independent valuation of the Group's investment property portfolio as at 31 December 2006. This valuation was carried out in accordance with the HKIS Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion".

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Cont'd)

(b) Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(k). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates *(Note 16)*.

(c) Fair value estimation of financial assets and liabilities

The fair value of financial instruments traded in active markets (such as available-for-sale financial assets) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(d) Construction contracts in progress

As explained in the accounting policy stated in Note 2(o), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and nature of the construction activities undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in Note 21 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised.

(e) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

(a) Primary reporting format – business segments

In accordance with its internal financial reporting, the Group has determined that business segments should be presented as the primary reporting format. The Group has categorised its businesses into the following segments:

Real estate development and project management:	Development of residential and commercial properties, as well as provision of construction project management services
Specialised construction:	Design, installation and selling of curtain walls and aluminium windows, 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
Manufacturing and trading:	Manufacturing and trading of lubricant oil and chemical products
Securities investment and trading:	Trading and investment of securities

Revenue during the year comprised the following:

	2006	2005
	HK$'000	HK$'000
Revenue from provision of construction project management services	**11,283**	14,995
Revenue from specialised construction contracts	**206,727**	144,075
Gross rental and management fee income from investment properties	**14,249**	12,078
Sales of lubricant oil and chemical products	**64,931**	59,781
Sales of securities investments	**5,895**	–
Dividend income from securities investments	**–**	393
	303,085	231,322

5. SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format – business segments (Cont'd)

(i) Segment revenue and result

	Real estate development and project management		Specialised construction		Property leasing		Manufacturing and trading		Securities investment and trading		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue												
Sales to external customers	**11,283**	14,995	**206,727**	144,075	**14,249**	12,078	**64,931**	59,781	**5,895**	393	**303,085**	231,322
Result												
Segment result	**43,828**	12,629	**(3,432)**	8,110	**63,892**	24,832	**4,628**	2,726	**2,878**	616	**111,794**	48,913
Unallocated costs											**(3,561)**	(23,823)
Operating profit											**108,233**	25,090
Finance costs											**(948)**	(583)
Income tax											**(1,440)**	3,642
Profit for the year											**105,845**	28,149

Unallocated costs represent corporate expenses and losses net of corporate income and gains.

5. SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format – business segments (Cont'd)

(ii) Segment assets and liabilities

	Real estate development and project management		Specialised construction		Property leasing		Manufacturing and trading		Securities investment and trading		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets												
Segment assets	**653,950**	350,839	**149,018**	128,687	**293,017**	249,954	**26,505**	23,855	**136,191**	32,127	**1,258,681**	785,462
Unallocated corporate assets											**16,485**	52,973
Total assets											**1,275,166**	838,435
Liabilities												
Segment liabilities	**46,182**	43,640	**99,446**	88,530	**5,442**	4,890	**5,024**	5,595	**-**	–	**156,094**	142,655
Unallocated corporate liabilities											**301,243**	95,746
Total liabilities											**457,337**	238,401

Segment assets consist primarily of property, plant and equipment, investment properties, goodwill, available-for-sale financial assets, inventories, receivables and operating cash. Segment liabilities comprise all operating liabilities but exclude items such as borrowings and taxation.

(iii) Other segment information

	Real estate development and project management		Specialised construction		Property leasing		Manufacturing and trading		Securities investment and trading		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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
Capital expenditure	**1,031**	537	**1,718**	1,985	**159**	737	**640**	548	**-**	–	**1,030**	186	**4,578**	3,993
Depreciation recognised in the income statement	**262**	238	**296**	467	**66**	117	**626**	942	**-**	–	**828**	972	**2,078**	2,736
Revaluation gain on investment properties	**-**	–	**-**	–	**52,670**	15,196	**-**	–	**-**	–	**-**	–	**52,670**	15,196
Write-back of provision for properties under development	**36,276**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**36,276**	–
Impairment loss/(reversal of impairment loss) recognised in the income statement	**-**	–	**5,267**	(3,767)	**(109)**	–	**16**	433	**-**	–	**(15,385)**	(256)	**(10,211)**	(3,590)

Capital expenditure comprises additions to property, plant and equipment *(Note 14)*.

5. SEGMENT INFORMATION (Cont'd)

(b) Secondary reporting format – geographical segments

The Group's businesses operate in two main geographical areas:

Hong Kong and Macau:	Specialised construction, property leasing, manufacturing and trading, and securities investment and trading
The PRC:	Real estate development and project management, specialised construction, property leasing, and manufacturing and trading

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

	Hong Kong and Macau		The PRC		Other countries		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
External sales	**44,714**	24,549	**258,001**	206,378	**370**	395	**303,085**	231,322
Segment assets	**450,038**	297,031	**808,643**	488,431	**–**	–	**1,258,681**	785,462
Capital expenditure	**1,047**	1,118	**3,531**	2,875	**–**	–	**4,578**	3,993

6. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Interest income from bank deposits	**1,562**	2,358
Unrealised fair value gain on financial assets at fair value through profit or loss	**–**	289
Investment income (excluding dividend income)	**1,562**	2,647
Gain on disposal of property, plant and equipment	**256**	6,215
Others	**1,049**	1,455
	2,867	10,317

The investment income (including dividend income) from listed investments for the year ended 31 December 2006 was approximately HK$5,895,000 (2005: HK$682,000).

7. OPERATING PROFIT

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

	2006 HK$'000	2005 HK$'000
Gross rental and management fee income from investment properties	(14,249)	(12,078)
Less: outgoings	2,998	2,150
	(11,251)	(9,928)
Depreciation	2,235	2,929
Less: amount capitalised into properties under development	(157)	(193)
	2,078	2,736
Amortisation of land lease premium	3,611	1,822
Less: amount capitalised into properties under development	(3,611)	(1,822)
	–	–
Operating lease charges – minimum lease payment in respect of land and buildings	4,886	4,441
Less: amount capitalised into properties under development	(383)	(324)
	4,503	4,117
Cost of inventories sold	35,591	33,586
Auditors' remuneration	2,306	1,620
Net foreign exchange gain	(9,626)	(1,533)
Employee benefit expense *(Note 8)*	35,435	34,562
Provision for impairment of property, plant and equipment	1,902	–
Write-back of receivables previously written-off (a)	(15,658)	(1,585)

(a) The amount in 2006 mainly comprised sum received from settlements of legal proceedings out of court and interim dividends received from the liquidation of Condo Engineering (China) Limited, a former non wholly-owned subsidiary of the Company.

8. EMPLOYEE BENEFIT EXPENSE

	2006	2005
	HK$'000	HK$'000
Wages and salaries	**34,953**	33,950
(Over-provision)/provision for unutilised annual leaves	**(206)**	41
Provision for long service payment	**97**	–
Pension costs-defined contribution plans *(Note 29)*	**591**	571
	35,435	34,562

(a) Directors' emoluments

The remuneration of each director of the Company ("Director", collectively "Directors") for the year ended 31 December 2006 is set out below:

Name of Director	**Fees**	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Employer's contributions to pension scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Zhou Zhongshu *(note (i))*	**–**	**–**	**–**	**–**	**–**
Mr. Lin Xizhong *(note (ii))*	**–**	**–**	**–**	**–**	**–**
Mr. Qian Wenchao	**–**	**–**	**–**	**–**	**–**
Mr. Wang Xingdong	**–**	**1,374**	**–**	**–**	**1,374**
Mr. Yan Xichuan	**–**	**1,200**	**–**	**60**	**1,260**
Mr. Yin Liang *(note (iii))*	**–**	**–**	**–**	**–**	**–**
Ms. He Xiaoli	**–**	**960**	**–**	**–**	**960**
Ms. Tam Wai Chu, Maria	**300**	**–**	**–**	**–**	**300**
Mr. Lam Chun, Daniel	**300**	**–**	**–**	**–**	**300**
Mr. Selwyn Mar	**310**	**–**	**–**	**–**	**310**
	910	**3,534**	**–**	**60**	**4,504**

8. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) Directors' emoluments (Cont'd)

The remuneration of each Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employer's contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Lin Xizhong *(note (ii))*	–	–	–	–	–
Mr. Qian Wenchao	–	–	–	–	–
Mr. Wang Xingdong	–	2,136	–	–	2,136
Mr. Yan Xichuan	–	1,300	–	60	1,360
Ms. He Xiaoli	–	1,040	15	–	1,055
Ms. Tam Wai Chu, Maria	300	–	–	–	300
Mr. Lam Chun, Daniel	300	–	–	–	300
Mr. Selwyn Mar	310	–	–	–	310
	910	4,476	15	60	5,461

During the year, Mr. Wang Xingdong, Mr. Yan Xichuan and Ms. He Xiaoli waived emoluments of approximately HK$110,000 (2005: Nil), HK$100,000 (2005: Nil) and HK$80,000 (2005: Nil) respectively.

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 (2005: Nil).

notes:

(i) Appointed on 28 February 2006.

(ii) Resigned on 28 February 2006.

(iii) Appointed on 15 December 2006.

8. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(b) Five highest-paid individuals

The five highest-paid individuals in the Group for the year ended 31 December 2006 included three (2005: three) Executive Directors whose emoluments are disclosed in (a) above. Details of the emoluments of the remaining two (2005: two) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	2,792	2,557
Bonuses	103	149
Employer's contributions to pension schemes	234	219
	3,129	2,925

The emoluments fell within the following bands:

	2006	2005
Nil to HK$1,000,000	–	1
HK$1,000,001 – HK$1,500,000	1	–
HK$1,500,001 – HK$2,000,000	1	1
	2	2

During the year, no emoluments were paid by the Group to these individuals as an inducement to join or as compensation for loss of office (2005: Nil).

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Bank borrowings		
Wholly repayable within five years	6,123	2,000
Other loans		
Wholly repayable within five years	4,283	4,837
	10,406	6,837
Less: amount capitalised into properties under development (a)	(9,458)	(6,254)
	948	583

(a) Borrowing costs were capitalised at a rate ranging from 5.58% to 6.14% (2005: 5.58% to 5.74%) per annum.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. 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.

	2006 HK$'000	2005 HK$'000
Current tax – Hong Kong		
Over-provision in respect of prior years	(76)	(3,675)
Current tax – Overseas		
Provision for the year	1,621	653
Over-provision in respect of prior years	–	(620)
	1,621	33
Deferred tax		
Reversal of temporary differences *(Note 27)*	(105)	–
Income tax charge/(credit)	1,440	(3,642)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2006 HK$'000	2005 HK$'000
Profit before tax	107,285	24,507
Tax calculated at domestic tax rates applicable to profits in the respective countries	20,143	4,351
Over-provision of income tax in respect of prior years	(76)	(4,295)
Reversal of deferred tax liabilities	(105)	–
Income not subject to tax	(20,089)	(5,367)
Expenses not deductible for tax purposes	1,515	2,898
Utilisation of previously unrecognised tax losses	(3,574)	(1,229)
Unrecognised tax losses	3,626	–
Income tax charge/(credit)	1,440	(3,642)

The weighted average applicable tax rate was 18.8% (2005: 17.8%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Consolidated profit attributable to equity holders of the Company includes a profit of approximately HK$176,341,000 (2005: HK$1,345,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company of approximately HK$105,845,000 (2005: HK$28,149,000) by the weighted average number of 772,181,783 ordinary shares (2005: 772,181,783 ordinary shares) in issue during the year.

There were no dilutive potential shares in existence during the year.

13. DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2006 (2005: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment are as follows:

	Group					
	Leasehold land and buildings HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1 January 2005						
Cost	4,827	9,355	7,585	5,476	4,767	32,010
Accumulated depreciation and impairment	(1,173)	(7,389)	(5,800)	(3,665)	(3,810)	(21,837)
Net book amount	3,654	1,966	1,785	1,811	957	10,173
Year ended 31 December 2005						
Opening net book amount	3,654	1,966	1,785	1,811	957	10,173
Exchange differences	–	3	114	10	6	133
Transfer from investment properties	5,187	–	–	–	–	5,187
Additions	–	759	882	1,448	904	3,993
Disposals	–	(8)	(739)	(460)	(4)	(1,211)
Depreciation	(88)	(1,372)	(457)	(588)	(424)	(2,929)
Closing net book amount	8,753	1,348	1,585	2,221	1,439	15,346
At 31 December 2005						
Cost	10,014	10,040	4,908	5,814	5,677	36,453
Accumulated depreciation and impairment	(1,261)	(8,692)	(3,323)	(3,593)	(4,238)	(21,107)
Net book amount	8,753	1,348	1,585	2,221	1,439	15,346

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(a) Movements in property, plant and equipment are as follows: (Cont'd)

	Group					
	Leasehold land and buildings HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
Year ended 31 December 2006						
Opening net book amount	**8,753**	**1,348**	**1,585**	**2,221**	**1,439**	**15,346**
Exchange differences	**–**	**–**	**10**	**16**	**28**	**54**
Transfer from investment properties	**3,600**	**–**	**–**	**–**	**–**	**3,600**
Transfer to investment properties	**(1,800)**	**–**	**–**	**–**	**–**	**(1,800)**
Additions	**–**	**687**	**874**	**1,396**	**1,621**	**4,578**
Disposals	**–**	**–**	**–**	**(6)**	**(90)**	**(96)**
Provision for impairment	**–**	**(799)**	**(971)**	**(61)**	**(71)**	**(1,902)**
Depreciation	**(306)**	**(656)**	**(302)**	**(585)**	**(386)**	**(2,235)**
Closing net book amount	**10,247**	**580**	**1,196**	**2,981**	**2,541**	**17,545**
At 31 December 2006						
Cost	**11,814**	**10,729**	**5,792**	**7,017**	**7,116**	**42,468**
Accumulated depreciation and impairment	**(1,567)**	**(10,149)**	**(4,596)**	**(4,036)**	**(4,575)**	**(24,923)**
Net book amount	**10,247**	**580**	**1,196**	**2,981**	**2,541**	**17,545**

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

	2006 **HK$'000**	2005 HK$'000
In Hong Kong, held on:		
Long-term leases (over 50 years)	**6,737**	8,753
In the PRC, held on:		
Long-term leases (over 50 years)	**3,510**	–
	10,247	8,753

Leasehold land and buildings with carrying amounts of approximately HK$6,737,000 (2005: HK$8,753,000) have been pledged as securities for bank borrowings *(Note 26(a))*.

15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**239,899**	229,890
Transfer from property, plant and equipment	**1,800**	–
Transfer to property, plant and equipment	**(3,600)**	(5,187)
Revaluation gain	**52,670**	15,196
Balance at 31 December	**290,769**	239,899

The investment properties were revalued at 31 December 2006 by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers. Valuations were based on current prices in an active market for all properties.

The Group's interests in investment properties at their net book values are analysed as follows:

	2006	2005
	HK$'000	HK$'000
In Hong Kong, held on:		
Long-term leases (over 50 years)	**290,769**	236,299
In the PRC, held on:		
Long-term leases (over 50 years)	**–**	3,600

Investment properties with carrying amounts of approximately HK$290,769,000 (2005: HK$236,299,000) have been pledged as securities for bank borrowings *(Note 26(a))*.

16. GOODWILL

(a) Goodwill arising from an acquisition is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**19,383**	18,958
Exchange differences	**712**	425
Balance at 31 December	**20,095**	19,383

(b) **Impairment test for goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segment as follows:

	2006	2005
	HK$'000	HK$'000
Specialised construction	**20,095**	19,383

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets covering a three-year period and extrapolated for two years based on an estimated growth rate of 8.00% with reference to past performance and expectation for market development. The discount rate of 6.12% used is the weighted average cost of capital of the CGU. The calculations are carried out on the assumption that the relevant operating licence which is due to expire within the next five years will be duly renewed.

17. SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted share investments, at cost	**695,296**	695,296
Less: provision for impairment in value	**(682,595)**	(695,296)
	12,701	–

(b) Loans to subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Loans to subsidiaries	**49,518**	51,423
Less: provision for impairment of loans to subsidiaries	**(47,800)**	(47,800)
	1,718	3,623

Included in the loans to subsidiaries are loans to subsidiaries of approximately HK$47,800,000 (2005: HK$47,800,000) which are non-interest bearing. The remaining balances bear interest at commercial lending rates. All balances are unsecured and repayable on demand.

(c) Amounts due from subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Amounts due from subsidiaries	**1,081,582**	1,032,171
Less: provision for impairment of amounts due from subsidiaries	**(335,661)**	(488,212)
	745,921	543,959

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

17. SUBSIDIARIES (Cont'd)

(d) The following is a list of the principal subsidiaries at 31 December 2006:

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/registered and paid up capital *(note (i))*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
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 *(note (ii))*	PRC	RMB12,062,711	–	100	Manufacturing of fire-proof doors
Dragon Construction (Nanjing) Properties Company Limited *(note (iii))*	PRC	US$3,300,000	–	100	Property development
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
Full Pacific Limited	Hong Kong	2 shares of HK$1 each	–	100	Property investment

17. SUBSIDIARIES (Cont'd)

(d) The following is a list of the principal subsidiaries at 31 December 2006: (Cont'd)

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/registered and paid up capital *(note (i))*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
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
Linkcheer Limited	Hong Kong	2 shares of HK$1 each	–	100	Property investment
ONFEM Finance Limited	British Virgin Islands/Hong Kong	1,000 shares of US$1 each	100	–	Provision of financing for group companies
ONFEM Investments Limited	British Virgin Islands/Hong Kong	100 shares of US$10 each	100	–	Investment holding

17. SUBSIDIARIES (Cont'd)

(d) The following is a list of the principal subsidiaries at 31 December 2006: (Cont'd)

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/registered and paid up capital *(note (i))*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
Oriental Dragon Construction Limited *(note (iii))*	Hong Kong/ Hong Kong and PRC	10,000 shares of HK$1 each	–	100	Investment holding
Shanghai Jin Qiao Condo Decoration Engineering Co., Ltd. *(note (iv))*	PRC	US$2,040,000	–	100	Design and installation of curtain walls and aluminum windows
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 Horrison Properties Company Limited *(note (v))*	PRC	RMB44,000,000	–	100	Property development

17. SUBSIDIARIES (Cont'd)

notes:

(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 2006.

(ii) Dongguan Bridgman Fire Doors Limited ("Dongguan Bridgman") is a Sino-foreign equity joint venture established in the PRC with an initial operating period of 12 years up to 2005 and further extending to 2017, of which Bridgman Fire Doors (H.K.) Limited ("Bridgman HK"), 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 while Bridgman HK is entitled to share all the profit/loss of Dongguan Bridgman after deducting the distribution to the Chinese joint venture partner.

(iii) Dragon Construction (Nanjing) Properties Company Limited, a wholly-owned subsidiary of Oriental Dragon Construction Limited ("ODCL"), is a foreign investment enterprise established in the PRC with an operating period of 15 years up to 2021.

Pursuant to a shareholders' agreement dated 11 April 2006 entered into amongst Karman Industries Limited ("KIL"), Stillpower Limited ("SL") (both are wholly-owned subsidiaries of the Company), World Ocean Development Limited ("WODL") and ODCL, ODCL will become a joint venture company, owned as to 71% by the Company through KL and SL and 29% by WODL, upon completion of the share transfer.

(iv) Shanghai Jin Qiao Condo Decoration Engineering Co., Ltd., a wholly-owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 15 years up to 2008.

(v) Zhuhai (Oriental) Blue Horrison Properties Company Limited, a wholly-owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 8 years up to 2007.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**29,340**	28,440
Revaluation surplus transferred to equity *(Note 25)*	**106,740**	900
Balance at 31 December	**136,080**	29,340
Less: non-current portion	**–**	(29,340)
Current portion	**136,080**	–

Available-for-sale financial assets include the following:

	2006	2005
	HK$'000	HK$'000
Equity securities:		
Listed in Hong Kong, at fair value	**136,080**	29,340
Unlisted, at cost	**243,600**	243,600
Less: provision for impairment in value	**(243,600)**	(243,600)
	–	–
	136,080	29,340

At 31 December 2006, the carrying amount of interest in the following company exceeded 10% of total assets of the Group.

Name	Place of incorporation	Particulars of issued shares	Interest held
China Merchants China Direct Investments Limited	Hong Kong	137,145,600 ordinary shares of US$0.1 each	5.25%

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Manufacturing and trading stocks		
Raw materials	**6,389**	5,129
Finished goods	**3,232**	3,723
	9,621	8,852
Less: provision for inventory obsolescence	**(2,521)**	(2,759)
Manufacturing and trading stocks, net	**7,100**	6,093
Properties under development – located in the PRC	**481,507**	244,979
Less: provision for net realisable value	**–**	(36,276)
Properties under development, net (a)	**481,507**	208,703
	488,607	214,796

(a) Properties under development

	2006	2005
	HK$'000	HK$'000
Land use rights	**290,284**	77,342
Construction in progress	**191,223**	131,361
	481,507	208,703

At 31 December 2006, the provision for net realisable value of approximately HK$36,276,000 made in previous years was written back due to the recovery of the property market. The amount written-back is recognised in the income statement.

Properties under development with carrying amounts of approximately HK$308,836,000 (2005: Nil) have been pledged as securities for bank borrowings *(Note 26(a))*.

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade and contract receivables, net (a)	**105,244**	83,170	**–**	–
Retention receivables *(Note 21)*	**12,724**	7,039	**–**	–
Deposits	**31,211**	52,242	**38**	650
Prepayments	**818**	876	**276**	324
Others	**7,366**	18,655	**11**	28
	157,363	161,982	**325**	1,002

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**15,752**	18,117	**325**	1,002
RMB	**138,656**	114,083	**–**	–
United States ("US") dollars	**2,955**	29,782	**–**	–
	157,363	161,982	**325**	1,002

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**38,146**	40,924
31 – 60 days	**12,978**	16,710
61 – 90 days	**8,075**	6,898
Over 90 days	**63,854**	34,027
	123,053	98,559
Less: provision for impairment of receivables	**(17,809)**	(15,389)
	105,244	83,170

For trade receivables, the normal credit period granted by the Group to the customers is from 30 days to 60 days from the date of invoice. The credit period for contract receivables varies in accordance with the terms of contracts.

21. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2006	2005
	HK$'000	HK$'000
Contract costs incurred plus recognised profits less recognised losses	**184,406**	112,699
Less: progress billings	**(183,789)**	(111,955)
Gross amounts due from customers for contract work	**617**	744

At 31 December 2006, retentions held by customers for contract work included in non-current retention receivables of the Group and trade and other receivables of the Group amounted to approximately HK$9,866,000 (2005: HK$4,539,000) and HK$12,724,000 (2005: HK$7,039,000) respectively.

22. PLEDGED DEPOSITS

The carrying amounts of pledged deposits are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**5,000**	5,000	**5,000**	5,000
RMB	**31,994**	–	**–**	–
	36,994	5,000	**5,000**	5,000

Pledged deposits represent deposits pledged to banks to secure banking facilities granted to the Group *(Note 26(a))*. At 31 December 2006, pledged deposits carried interest at rates ranging from 2.25% to 3.40% (2005: 3.40%).

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank deposits	**116,037**	143,299	**2,605**	49,976
Cash on hand	**64**	48	**–**	–
Cash and bank deposits (a)	**116,101**	143,347	**2,605**	49,976
Bank overdraft *(Note 26)*	**(3,516)**	(1,103)	**–**	–
	112,585	142,244	**2,605**	49,976

23. CASH AND CASH EQUIVALENTS (Cont'd)

(a) The carrying amounts of cash and bank deposits are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**7,534**	25,900	**2,048**	5,569
RMB	**107,932**	72,970	**–**	–
US dollars	**600**	44,433	**557**	44,407
Other currencies	**35**	44	**–**	–
	116,101	143,347	**2,605**	49,976

24. SHARE CAPITAL

	2006		2005	
	No. of Shares ('000)	**Amount HK$'000**	No. of Shares ('000)	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
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 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. Detail information of the share option scheme is disclosed in the paragraph headed "Information Relating to the Option Scheme" in the "Report of the Directors" section of this annual report.

24. SHARE CAPITAL (Cont'd)

(a) Share options (Cont'd)

(i) Share options were granted on 15 March 2004 under the share option scheme and are exercisable during a three-year period commencing on the date of acceptance of the share options by each respective Director or employee, and shall expire at the end of the three-year period. At 31 December 2006, the details of the share options granted and outstanding are as follows:

Category of participant	Exercise period of share options	Exercise price HK$	Number of share options ('000)
Directors	16 March 2004 to 15 March 2007	0.83	8,000
Employees	17 March 2004 to 26 April 2007	0.83	6,800
			14,800

(ii) Movements in the above share options are as follows:

	Number of share options 2006 ('000)	2005 ('000)
Balance at 1 January	**20,100**	20,900
Lapsed	**(5,300)**	(800)
Balance at 31 December	**14,800**	20,100

25. RESERVES

(a) Group

	Share premium HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	409,738	600,412	769	11,520	646	(531,776)	491,309
Currency translation adjustments	–	–	–	–	2,458	–	2,458
Revaluation surplus of available-for-sale financial assets	–	–	–	900	–	–	900
Profit for the year	–	–	–	–	–	28,149	28,149
Balance at 31 December 2005	**409,738**	**600,412**	**769**	**12,420**	**3,104**	**(503,627)**	**522,816**
Currency translation adjustments	**–**	**–**	**–**	**–**	**5,210**	**–**	**5,210**
Revaluation surplus of available-for-sale financial assets	**–**	**–**	**–**	**106,740**	**–**	**–**	**106,740**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**105,845**	**105,845**
Balance at 31 December 2006	**409,738**	**600,412**	**769**	**119,160**	**8,314**	**(397,782)**	**740,611**

25. RESERVES (Cont'd)

(b) Company

	Share premium	Contributed surplus (c)	Capital redemption reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2005	409,738	575,220	769	(482,045)	503,682
Profit for the year	–	–	–	1,345	1,345
Balance at 31 December 2005	**409,738**	**575,220**	**769**	**(480,700)**	**505,027**
Profit for the year	**–**	**–**	**–**	**176,341**	**176,341**
Balance at 31 December 2006	**409,738**	**575,220**	**769**	**(304,359)**	**681,368**

(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 1981 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 2006, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK$271,630,000 (2005: HK$95,289,000).

26. BORROWINGS

	Group 2006 HK$'000	Group 2005 HK$'000
Non-current		
Bank borrowings, secured (a)	**99,640**	–
Current		
Bank overdrafts, secured	**3,516**	1,103
Bank term-loans, secured	**86,601**	13,936
Bank borrowings, secured (a)	**90,117**	15,039
Loans from a fellow subsidiary, secured *(Note 33)*	**81,705**	48,055
	171,822	63,094
Total borrowings	**271,462**	63,094

(a) Banking facilities

At 31 December 2006, the Group's aggregate banking facilities, including bank borrowings, amounted to approximately HK$308,122,000 (2005: HK$194,685,000), of which the unutilised facilities as at the same date amounted to approximately HK$103,224,000 (2005: HK$176,011,000). Securities for the facilities include:

(i) fixed deposits of the Group of approximately HK$36,994,000 (2005: HK$5,000,000), including that of the Company of approximately HK$5,000,000 (2005: HK$5,000,000);

(ii) Leasehold land and buildings and investment properties with carrying amounts of approximately HK$6,737,000 (2005: HK$8,753,000) and HK$290,769,000 (2005: HK$236,299,000) respectively;

(iii) properties under development with carrying amounts of approximately HK$308,836,000 (2005: Nil); and

(iv) corporate guarantees given by the Company.

26. BORROWINGS (Cont'd)

(b) The maturity of the Group's borrowings is as follows:

	Bank borrowings		Loans from a fellow subsidiary	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**90,117**	15,039	**81,705**	48,055
In the second year	**99,640**	–	**–**	–
	189,757	15,039	**81,705**	48,055

(c) All the borrowings are on a floating interest rate basis. The effective interest rates at the balance sheet date were as follows:

	2006		2005	
	HK$	**RMB**	HK$	RMB
Non-current				
Bank borrowings	**–**	**7.56%**	–	–
Current				
Bank overdrafts	**7.75%**	**–**	7.75%	–
Bank term-loans	**5.00%**	**6.12%**	–	5.58%
Loans from a fellow subsidiary	**–**	**6.14%**	–	5.74%

(d) The carrying amounts of the Group's borrowings approximate their fair values and are denominated in the following currencies:

	2006	2005
	HK$'000	HK$'000
Hong Kong dollars	**74,673**	1,103
RMB	**196,789**	61,991
	271,462	63,094

27. DEFERRED TAX

The movement on the deferred tax assets is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**932**	932
Recognised in the income statement	**–**	–
Balance at 31 December	**932**	932

The movement on the deferred tax liabilities is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**105**	105
Recognised in the income statement	**(105)**	–
Balance at 31 December	**–**	105

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 December 2006, the Group had unrecognised tax losses in Hong Kong of approximately HK$140,173,000 (2005: HK$215,180,000) to carry forward against future taxable income and these tax losses have no expiry date. In addition, the Group had unrecognised tax losses in the PRC of approximately HK$18,336,000 as at 31 December 2006 (2005: HK$24,278,000) and these tax losses will expire within 5 years.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade, bills and contract payables (a)	**107,176**	99,794	**–**	–
Retention payables	**21,176**	10,453	**–**	–
Accruals and other payables	**29,632**	38,459	**2,333**	3,078
Provisions (b)	**–**	–	**7,351**	18,237
Rental deposits received	**2,917**	1,195	**–**	–
Other deposits received	**7,422**	7,699	**–**	–
	168,323	157,600	**9,684**	21,315

28. TRADE AND OTHER PAYABLES (Cont'd)

The carrying amounts of trade and other payables are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**31,027**	19,786	**9,684**	21,315
RMB	**136,810**	136,876	**–**	–
US dollars	**74**	568	**–**	–
Other currencies	**412**	370	**–**	–
	168,323	157,600	**9,684**	21,315

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

	Group	
	2006	2005
	HK$'000	HK$'000
0 – 30 days	**23,499**	25,617
31 – 60 days	**6,773**	10,161
61 – 90 days	**4,914**	3,821
Over 90 days	**71,990**	60,195
	107,176	99,794

(b) Provisions

	Company	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**18,237**	–
Provisions for the year	**–**	18,237
Unused amounts reversed	**(10,886)**	–
Balance at 31 December	**7,351**	18,237

The amount represents the provision made for corporate guarantees in respect of banking facilities extended to subsidiaries *(Note 31)*.

29. 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 are entitled to 100% of the employer's contributions and the accrued interest upon retirement or upon 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 per employee and thereafter contributions are voluntary and are not subject to any limitation. The mandatory contributions 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 addition 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 upon retirement after attaining the retirement age notwithstanding the 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. Contributions to the pension scheme and MPF scheme are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Forfeited contributions totalling approximately HK$75,000 (2005: HK$57,000) were utilised during the year and there were no unutilised forfeited contributions available as at 31 December 2006.

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 10% to 22% of the basic salary of the PRC employees in addition to contributions by employees at a rate of 8% 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.

30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to cash (used in)/generated from operations

	2006	2005
	HK$'000	HK$'000
Profit before tax	**107,285**	24,507
Interest income	**(1,562)**	(2,358)
Interest expense	**948**	583
Depreciation	**2,078**	2,736
Revaluation gain on investment properties	**(52,670)**	(15,196)
Write-back of provision for properties under development	**(36,276)**	–
Provision for impairment of property, plant and equipment	**1,902**	–
Gain on disposal of property, plant and equipment	**(256)**	(6,215)
Provision for impairment of other assets	**–**	1,312
(Write-back of provision)/provision for inventory obsolescence	**(238)**	398
Provision/(write-back of provision) for impairment of receivables	**2,420**	(3,868)
Gain on sales of financial assets at fair value through profit or loss	**(3,117)**	–
Unrealised fair value gain on financial assets at fair value through profit or loss	**–**	(289)
Dividend income from securities investments	**–**	(393)
Operating profit before working capital changes	**20,514**	1,217
Increase in retention receivables, non-current portion	**(5,327)**	(3,660)
Decrease in other assets	**152**	55
Increase in inventories	**(227,682)**	(6,256)
Decrease/(increase) in trade and other receivables	**2,199**	(74,624)
Decrease in gross amounts due from/(to) customers for contract work, net	**127**	130
(Increase)/decrease in pledged deposits	**(31,994)**	33,100
Increase in trade and other payables	**10,723**	49,034
(Decrease)/increase in other liabilities	**(994)**	286
Exchange adjustments	**4,444**	1,900
Cash (used in)/generated from operations	**(227,838)**	1,182

31. CONTINGENT LIABILITIES

At 31 December 2006, the Company had executed corporate guarantees amounting to approximately HK$195,991,000 (2005: HK$194,400,000) to various banks in respect of banking facilities extended to subsidiaries, of which provision of approximately HK$7,351,000 (2005: HK$18,237,000) was made. At 31 December 2006, the utilised facilities, under which corporate guarantees from the Company were given, amounted to approximately HK$92,767,000 (2005: HK$18,528,000).

32. COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2006 were as follows:

	2006	2005
	HK$'000	HK$'000
Contracted but not provided for in respect of property development	**160,478**	275,890

At 31 December 2006, the Company did not have any outstanding capital commitment (2005: Nil).

(b) At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006	2005
	HK$'000	HK$'000
Not later than one year	**5,691**	4,475
Later than one year and not later than five years	**4,806**	5,429
After five years	**2,053**	2,550
	12,550	12,454

At 31 December 2006, the Company did not have any operating lease commitment (2005: Nil).

32. 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. None of the leases includes contingent rentals.

At 31 December 2006, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2006 **HK\$'000**	2005 HK\$'000
Not later than one year	**11,705**	11,226
Later than one year and not later than five years	**6,575**	5,828
	18,280	17,054

At 31 December 2006, the Company did not have any future lease receipt (2005: Nil).

33. RELATED PARTY TRANSACTIONS

The Directors consider the immediate holding company to be June Glory International Limited, a company incorporated in the British Virgin Islands; the intermediate holding company to be China Minmetals H.K. (Holdings) Limited ("Minmetals HK"), a company incorporated in Hong Kong; and the ultimate holding company to be China Minmetals Corporation ("China Minmetals"), a company incorporated in the PRC.

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

(a) Transactions with related parties

	2006 **HK\$'000**	2005 HK\$'000
Construction project management service revenue from a fellow subsidiary *(note (i))*	**11,662**	15,344
Specialised construction revenue from related companies *(note (ii))*	**15,074**	30,206
Rental expenses and license fees paid to fellow subsidiaries *(note (iii))*	**1,614**	1,354
Loan interest costs to a fellow subsidiary *(note (iv))*	**4,668**	1,037
Interest costs to related companies *(note (ii))*	**5,014**	56
Construction costs to a related company for a real estate development project *(note (ii))*	**21,270**	–
Payment to local governments in the PRC for settlement of land costs *(note (ii))*	**175,880**	–

33. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Balances with related parties

	2006 HK$'000	2005 HK$'000
Contract receivable from a fellow subsidiary for construction project management services *(note (i))*	**9,574**	2,562
Contract and other receivables from related companies for specialised construction contracts *(note (ii))*	**11,623**	15,901
Contract payable to a related company for a real estate development project *(note(ii))*	**35,797**	34,528
Contract and retention payables to a related company for a specialised construction contract *(note (ii))*	**3,046**	22,540
Short-term loans from a fellow subsidiary *(note (iv))*	**81,705**	48,055
Bank borrowings from related companies *(note (ii))*	**174,313**	1,103

(c) Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries and short-term employee benefits	**4,444**	5,401
Pension costs – defined contribution plan	**60**	60
	4,504	5,461

notes:

(i) Details of the construction project management agreement dated 29 July 2004 entered into between a subsidiary and a fellow subsidiary of the Company have been published in the Company's announcement dated 29 July 2004. The transaction constituted a connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(ii) As China Minmetals is a state-owned enterprise, the government of the PRC (the "PRC Government") is considered as the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to China Minmetals, directly or indirectly controlled by the PRC Government are also considered as related parties of the Group. Since many state-controlled enterprises have multi-layered and diversified corporate structure and the structure may also change over time as a result of transfers and privatisation programmes, to balance the cost and benefit in making disclosure, the Group has only disclosed material transactions with such state-controlled enterprises.

(iii) The transactions constituted continuing connected transactions as defined in the Listing Rules.

(iv) The short-term loans from a fellow subsidiary made on 11 January 2006 and 20 March 2006, for working capital purposes to a subsidiary of the Company for a term of 1 year bearing interest at the rate of 6.14% per annum, are secured by corporate guarantees from Minmetals HK. The transactions constituted connected transactions as defined in the Listing Rules.

34. EVENTS AFTER THE BALANCE SHEET DATE

On 4 January 2007, ONFEM Investments Limited disposed of the 7,200,000 ordinary shares in China Merchants China Direct Investments Limited, at HK$22.0 per share for a cash consideration of approximately HK$158,400,000. As a result of the disposal, a gain of approximately HK$140,900,000 is expected to be realised by the Group for the year ending 31 December 2007.

Further details of the above transaction have been published in the Company's circular dated 21 February 2007.