東方有色集團有限公司 *

ONFEM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code : 230)

05 ANNUAL REPORT 2005

* For identification purpose only

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Corporate Information

CHAIRMAN
ZHOU Zhongshu

MANAGING DIRECTOR
WANG Xingdong

DEPUTY MANAGING DIRECTOR
YAN Xichuan

EXECUTIVE DIRECTORS
QIAN Wenchao
HE Xiaoli

INDEPENDENT NON-EXECUTIVE DIRECTORS
LAM Chun, Daniel
Selwyn MAR
TAM Wai Chu, Maria

QUALIFIED ACCOUNTANT
YUEN Wai Man

COMPANY SECRETARY
SIU Tin Ho

AUDITORS
PricewaterhouseCoopers
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PRINCIPAL BANKER
Bank of China (Hong Kong) Limited

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Mr. Zhou Zhongshu
Chairman

OVERVIEW

I am pleased to announce that ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") recorded net profit for a consecutive year in 2005. Consolidated turnover was approximately HK$231.3 million in 2005, representing an increase of 167.1% compared with approximately HK$86.6 million in 2004. The specialised construction business contributed significantly to the Group's turnover due to the inclusion of the full-year results of Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**"), which was acquired by and became a wholly owned subsidiary of the Company in October 2004, in the financial statements of the Group in 2005. In 2004, the financial statements included only the results of SJQ for the three months to 31 December 2004.

The Group as a whole achieved satisfactory results in the year under review. Consolidated profit for the year was approximately HK$28.1 million, a decrease of 67.0% compared with approximately HK$85.1 million in 2004. This substantial drop in profit was due to the fact that the financial statements of 2004 included items, such as gain on deconsolidation of subsidiaries, provision for properties under development and the write-back of provision for a bank guarantee totaling to approximately HK$63.8 million, which were not recurrent in 2005. If these items were excluded for comparison purposes, the Group's profit in 2004 would have been approximately HK$21.3 million and the profit for the year under review would have increased by 31.9%. Basic earnings per share for the year under review was approximately 3.65 HK cents (2004: 11.02 HK cents).

REVIEW

"Based in Hong Kong with focus on China" is the direction underlining the Group's strategic development. With Hong Kong as its springboard to the world – the platform for access to international financing and a bridge for transnational operations, China as production base, and all-round support of its ultimate controlling shareholder China Minmetals Corporation ("**China Minmetals**"), the Group focuses on real estate development as its core business, which is supported by specialised construction, property leasing, and manufacturing and trading businesses. On a solid financial position and with experiences accumulated over the years, the Group has been actively developing its real estate development business while seeking opportunities that would open for it a better future.

During the year under review, the Group conducted a vast number of studies on potential real estate development projects in China and in December 2005, the Group was awarded a bid for a piece of land with an area of approximately 300,000 square metres located at the Science Park on Xue Si Lu East and Xue Qi Lu North of the Jiang Ning District in Nanjing at the price of RMB160.0 million (approximately HK$153.8 million). The Group would form a joint venture company to undertake the property development on the aforesaid land. The joint venture company would be owned as to 71% by the Group and 29% by a joint venture partner who has extensive knowledge and experience in property development in China and particularly Nanjing. This project is expected to become another milestone for the Group to explore the real estate market in China.

Regarding the Haitian Garden project in Zhuhai ("**Haitian Garden**"), the Group had completed the preparation work which included modification of the design, re-tendering of contracts and formulation of marketing strategies. The construction work has commenced. Pre-sale permits of the project are expected to be granted in 2006, and all units will be ready for occupation in 2007. Based on current market condition in Zhuhai, we believe the Haitian Garden will bring in revenue to the Group.

REVIEW *(cont'd)*

The provision of construction project management services in respect of the Guangzhou Tian He Jin Hai Building progressed well. This large-scale construction management services project contributed satisfactory revenue to the Group, and provided the Group with an opportunity to build a respectable construction project management team, which enables the Group to undertake more real estate development projects in the future.

The Group acquired 100% of the equity in SJQ in October 2004. SJQ is engaged in curtain wall business and has become a major contributor in both turnover and profit to the Group in 2005. Following the completion of the design project in relation to the roof of the Shanghai Science and Technology City, which was a landmark project of the Shanghai Municipal Government, SJQ succeeded in winning a bid for the large-scale curtain wall project in relation to a commercial property development project located on Da Ning Lu of Zha Bei District, Shanghai, thus allowing SJQ to establish respectable market image and brandname. SJQ posted a notable growth in turnover during the year under review and has a considerable market share in Shanghai's curtain wall industry, laying a strong foundation for future growth. Following the relocation of the manufacturing facilities in the first half of the year under review, Enful Holdings Limited and its subsidiaries (collectively, "**Enful**") focused their resources on business development in the second half of 2005 and gained a number of sizeable door fabrication and installation projects. The Group expects the business of Enful to further improve in 2006.

The Group's property leasing business continued to show satisfactory performance. Bolstered by the upturn in the property market and the improving economy in Hong Kong, ONFEM Tower in Central currently achieves 100% occupancy. As the Hong Kong economy continues to improve, the local property leasing market is likely to remain buoyant. Braced by such a favourable market environment and its central location, ONFEM Tower is expected to see steady growth in rental income, thus continuing to provide the Group with stable income.

As for the manufacturing and trading business, through market penetration, product development and improvement, Jaeger Oil & Chemical Holdings Limited and its subsidiaries (collectively, "**Jaeger**") recorded growth in both turnover and market share in different markets. Furthermore, Jaeger was able to provide products that met the quality and environmental requirements of the market, thereby maintaining its competitiveness.

OUTLOOK

Looking forward, as the overseas listed real estate development vehicle of China Minmetals, the Group will focus on developing its real estate development business in China and at the same time actively seek high-potential projects in other industries. By so doing, the Group will be able to diversify its business and broaden its source of earnings, thus achieve the objective of "Expanding business, enhancing profits".

Starting in 2005, in order to identify appropriate real estate development projects, the Group conducted research on residential and commercial real estate market in major cities in China, primarily in the Pearl River Delta region, followed by Beijing, Shanghai, Guangzhou and Nanjing as well as the peripheral areas such as the Yangtze River Delta region.

OUTLOOK *(cont'd)*

In 2005, macroeconomic austerity measures launched by the China's Government were aimed at guiding the national real estate market onto a healthy development path. Demand for residential and commercial properties in China remains. We are confident of our development in China's real estate market.

We believe that, major events such as the 2008 Olympics Games in Beijing, the 2010 World Expo in Shanghai, and the Asian Games in Guangzhou will bring about opportunities for the Group's core businesses. Capitalising on the synergistic advantages among its subsidiaries, the Group is committed to providing customers with ever better quality products and services, and enhancing its overall performance and profitability. Furthermore, the Group will continue to strengthen its corporate governance and improve its corporate transparency so as to enhance its image.

In conclusion, I would like to express my gratitude to all our directors, the management team and our staff for their contribution in the past year. On behalf of the board of directors, I would also like to take this opportunity to thank our customers, business partners and shareholders for their continuous support. We will make every effort to offer customers the best products and services, and enhance the Group's competitive advantages and earning capability to bring satisfactory rewards to our shareholders.

By Order of the Board
Zhou Zhongshu
Chairman

Hong Kong, 13 April 2006

Mr. Wang Xingdong
Managing Director

BUSINESS OVERVIEW

In 2005, ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") posted a consolidated turnover of approximately HK$231.3 million (2004: HK$86.6 million), representing an increase of 167.1% compared with last year.

This remarkable increase in the Group's turnover during the year under review was mainly attributable to the inclusion of a full year turnover of approximately HK$140.1 million of Shanghai Jin Qiao Condo Decoration Engineering Company Limited ("**SJQ**"), which became a wholly owned subsidiary of the Group since October 2004.

The Group reported a consolidated profit for the year of approximately HK$28.1 million in 2005 (2004: HK$85.1 million), a decrease of 67.0% compared with last year. In 2004, the Group's profit included items which were of non-recurring nature, such as gain on deconsolidation of subsidiaries, provision for properties under development, and a write-back of provision for a bank guarantee. If these items were excluded for comparison purposes, the profit for 2004 would have been approximately HK$21.3 million, and the Group's performance in 2005 would have shown a growth in earnings of 31.9% over that of 2004.

Presently, the Group is principally engaged in four categories of businesses, namely, real estate development, specialised construction, property leasing and manufacturing and trading. Performance of each of these categories is discussed under the section entitled "Operational Review" below.

Front row: (from right to left) **Mr. Zhou Zhongshu, Mr. Wang Xingdong**
Back row: (from right to left) **Mr. Yan Xichuan, Ms. He Xiaoli, Mr. Li Tan, Mr. Qian Wenchao**
Executive Directors and Senior Management

OPERATIONAL REVIEW

A. Real Estate Development Business

The Group's real estate development business comprises the development of residential and commercial properties and the provision of construction project management services. With dedicated resources, the Group continues to conduct research on the real estate market in China, and to explore the opportunities of investing in real estate projects. During the year under review, the Group has performed feasibility studies on a number of projects.

In 2005, turnover of this segment, which was wholly derived from provision of construction project management services, was approximately HK$15.0 million (2004: HK$7.6 million), an increase of 97.4% compared with last year, and accounted for 6.5% of the Group's consolidated turnover (2004: 8.8%). In 2004, a provision of approximately HK$25.0 million was made for reduction in value of properties under development. As such provision was not required for the year under review, the result of this segment turned from a loss of approximately HK$13.4 million in 2004 to a profit of approximately HK$12.6 million in 2005.

OPERATIONAL REVIEW *(cont'd)*

A. Real Estate Development Business *(cont'd)*

(i) Real Estate Development

The Group devoted much effort to the preparation work for the Haitian Garden project in Zhuhai, China ("**Haitian Garden**") during the year under review. The modified design and construction blueprints were approved by the local government in Zhuhai and the construction contract was awarded to a main contractor under more reasonable terms and conditions.


Site of Haitian Garden

Based on the current development plan, the Group will complete a substantial portion of the superstructure of the Haitian Garden in 2006. With the overall marketing strategy of the project already formulated, the Group is well positioned to launch the pre-sale of units in the Haitian Garden once permits are obtained. The entire project is expected to be completed for occupation in 2007 and will form a foundation for the Group to build a brand for its real estate development business.

In December 2005, the Group was awarded a bid for a piece of land with an area of approximately 300,000 square metres located at the Science Park on Xue Si Lu East and Xue Qi Lu North of the Jiang Ning District in Nanjing at the price of RMB160.0 million (approximately HK$153.8 million). A joint venture company would be formed by the Group with a joint venture partner, who has extensive knowledge and experience in property development in China and particularly Nanjing, to undertake the property development on the aforesaid land. The joint venture company would be owned as to 71% by the Group and 29% by the joint venture partner. This project marks a step forward for the Group's real estate development business. By deploying more resources on research of China's real estate market and strengthening communication with local governments and relevant departments, the Group hopes to be able to invest in more real estate development projects in the near future.

OPERATIONAL REVIEW *(cont'd)*

A. Real Estate Development Business *(cont'd)*

(ii) Construction Project Management Service

During the year under review, the construction works of Guangzhou Tian He Jin Hai Building, to which the Group provides project management services, have been substantially completed. The works performed by the Group included checking of curtain walls, steel frames and elevator works, supervision of the design, works and contracts, and verification of costs. It is expected that the work under this service contract will be completed in the second half of 2006.

Jin Hai Building

B. Specialised Construction Business

The Group's specialised construction business includes: design and installation of curtain wall and aluminium windows business operated by SJQ, and manufacture, installation and selling of doors and fire-proof and acoustic plaster project business operated by Enful Holdings Limited and its subsidiaries (collectively, "**Enful**").

In 2005, specialised construction business reported a turnover of approximately HK$144.1 million (2004: HK$15.4 million), an increase of 835.7% over last year, and accounted for 62.3% of the Group's consolidated turnover. In 2004, this segment accounted for 17.8% of the Group's turnover as SJQ's accounts were not consolidated until October 2004. With the inclusion of a full year result of SJQ and the gain on disposal of property, plant and equipment of approximately HK$6.2 million resulting from acquisition by the Liao Bu Town Government of the land on which Enful's production facilities were previously located, the segment results turned from a loss of approximately HK$7.3 million in 2004 to a profit of approximately HK$8.1 million in 2005.

(i) Curtain Wall Business

The growth in the real estate sector in China over the years has led the development of China's curtain wall industry to a considerable scale. Curtain walls are used not only in hotels and commercial buildings as in the past, but are also used in residential buildings to enhance their image and status. SJQ stands to benefit substantially from this trend.

During the year under review, SJQ experienced significant growth in business with turnover of approximately HK$140.1 million in China. The total outstanding value of SJQ's contracts on hand amounted to approximately HK$122 million as at the end of 2005.

OPERATIONAL REVIEW *(cont'd)*

B. Specialised Construction Business *(cont'd)*

(i) Curtain Wall Business (cont'd)

With a renowned brand name, a considerable size of operation and experienced management, SJQ holds a significant position in Shanghai's curtain wall market. To cope with the increasingly competitive market, SJQ will strive to improve product quality by continuously focusing on contract management and exploring the possibility of adopting new techniques, materials and workmanship. These initiatives will enhance its core competencies and help to establish brand identity, which are conducive to securing more contracts with higher profit margins. Following the completion of the design project in relation to the roof of the Shanghai Science and Technology City, which was the landmark project of the Shanghai Municipal Government, SJQ completed a number of medium-scale curtain wall projects, including the German Centre in Shanghai during the year under review. SJQ also succeeded in winning a bid for the large-scale curtain wall contract of a commercial property development project located on Da Ning Lu of Zha Bei District. SJQ's business strategy is to focus primarily on the Shanghai and Beijing markets while actively exploring other markets in China and overseas.

Looking forward, the continuing growth of China's economy and the forthcoming major events such as the 2008 Olympics Games in Beijing, the 2010 World Expo in Shanghai and the Asian Games in Guangzhou will present a significant market for the curtain wall industry. In addition, curtain walls will continue to gain popularity as an important component of buildings as the construction industry develops and people's living standard continues to rise in China. On the back of such favourable environment and armed with strong competitive edge, SJQ is well positioned to look for high quality projects with better margins.

(ii) Door and Plaster Business

During the year under review, the turnover of Enful was approximately HK$4.0 million (2004: HK$2.9 million), comprising turnover from manufacturing, installation and selling of doors and plaster project business. Approximately 55.4% of the turnover came from Hong Kong, while China contributed the remaining 44.6%. In 2005, Enful received approximately HK$10.1 million compensation from the Liao Bu Town Government for the land requisition and thus recorded a gain on disposal of property, plant and equipment of approximately HK$6.2 million. As a result, Enful's loss reduced as compared with 2004.

In the first half of 2005, Enful underwent a series of shareholding and management restructuring and relocated its manufacturing facilities to the present location as the Liao Bu Town Government acquired the land on which the previous production factory was situated. It was unable to deploy resources for its operations until May 2005. As such, its business was affected for a considerable period of time. During the second half of 2005, Enful devoted its effort to developing new business and enhancing internal management. It managed to effectively control its operating costs and undertook more large-scale contracts. As a result of these exercises, Enful has laid a groundwork for new business, thereby establishing a solid base for business development in the coming year.

OPERATIONAL REVIEW *(cont'd)*

B. Specialised Construction Business *(cont'd)*

(ii) Door and Plaster Business (cont'd)

Looking forward, the door business will be the focus of Enful, supplemented by the plaster business. Furthermore, Enful will seek to capture the opportunities brought about by China's stable economic growth, the continuing improvement of Hong Kong's economic indicators, and Macau's flourishing tourism and entertainment industry.

C. Property Leasing Business

The Group's property leasing business covers mainly the leasing of units in the ONFEM Tower ("**Tower**") located in Central of Hong Kong and five other residential units in Hong Kong and Shanghai.

In 2005, the turnover of the property leasing business increased by 14.2% to approximately HK$12.1 million (2004: HK$10.6 million), accounting for 5.2% of the Group's consolidated turnover (2004: 12.2%). The segment profit amounted to approximately HK$24.8 million, a decrease of 20.8%, compared with that of approximately HK$31.3 million in 2004. After excluding the revaluation gain on investment properties of approximately HK$15.2 million (2004: HK$23.6 million), the segment profit rose approximately 24.7% compared with last year.

Benefiting from the upturn of the Hong Kong economy, the Tower recorded an average occupancy rate of 94% in 2005, against 92% last year. The Tower is currently 100% occupied.

ONFEM Tower

The Group believes that Hong Kong's rental market will continue to grow steadily and expects the Tower to maintain a high occupancy rate with a slight increase in rent in 2006 and provide the Group with stable profit and cash flow. In addition, the Group plans to launch appropriate maintenance and renovation works in 2006 to enhance the quality and rental value of the Tower.

D. Manufacturing and Trading

The Group's manufacturing and trading business consists of the manufacture and distribution of industrial lubricants operated by Jaeger Oil & Chemical Holdings Limited and its subsidiaries (collectively, "**Jaeger**").

Turnover from Jaeger was approximately HK$59.8 million in 2005 (2004: HK$52.5 million), an increase of 13.9% over last year, accounting for 25.9% of the Group's consolidated turnover (2004: 60.6%). Jaeger recorded a segment profit of approximately HK$2.7 million (2004: HK$0.8 million). About 82.8% and 16.5% of turnover of Jaeger came from China and Hong Kong respectively, while the rest was from the Southeast Asian markets.

OPERATIONAL REVIEW *(cont'd)*

D. Manufacturing and Trading *(cont'd)*

Jaeger's main focus is specialised petrochemical downstream products. It manufactures primarily high-value metal working, cutting and corrison inhibitors. In addition to expanding its sales network in the Yangtze River Delta region, Jaeger has expanded its sales network to Sichuan, China's main die-cast manufacturing base. Through implementing an array of market expansion plans, Jaeger achieved satisfactory business growth in both eastern and central China, the turnover of which increased by over 30% compared with 2004. Meanwhile, new product launch enabled Jaeger to increase its market share in southern China. Jaeger obtained purchase orders for such products from a number of large-scale Japanese enterprises, resulting in an increase in turnover from southern China compared with 2004.

On the product promotion front, Jaeger focused on promoting the full range of GWS – the US die-casting lubricant series, and employed a research specialist in metal working inhibitor from the United Kingdom ("**U.K.**") to improve the formula of U.K. Korniche's series. Furthermore, to meet the needs of its target markets and customers, Jaeger has developed a number of environmental-friendly industrial lubricant products.

Despite that the price of crude oil shows no sign of falling in the near future, Jaeger believes that with the global economy growing steadily, rise in crude oil price is unlikely to have a significant impact on Jaeger's business. Looking forward, Jaeger will deploy more resources to enrich product offerings and sales and marketing. Jaeger is considering building new manufacturing facilities in areas outside southern China, where raw materials and technical specialists are accessible. Utilising these facilities, Jaeger intends to manufacture a wide range of high value-added products with higher profit margins as its prime objective. In addition, Jaeger will continue to focus on promoting GWS and the Korniche series products and to make inroads into the high-growth industrial market by introducing new high-end quality brands. With plans to expand sales, develop new markets and introduce new products, Jaeger is cautiously optimistic about its future and will continue to bring in stable income to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group derived its funds mainly from cashflows generated from operations as well as financial resources from bank borrowings and borrowing from a fellow subsidiary. During the year ended 31 December 2005, the Group successfully secured various banking facilities which amounted to approximately HK$194.7 million, including a banking facility denominated in Renminbi ("**RMB**") to the extent of RMB40.0 million.

As at 31 December 2005, cash and bank deposits (excluding pledged deposits) of the Group amounted to approximately HK$143.3 million (2004: HK$120.8 million), of which 50.9%, 18.1% and 31.0% (2004: 14.4%, 55.8% and 29.8%) were denominated in RMB, Hong Kong dollars and United States ("**US**") dollars respectively.

LIQUIDITY AND FINANCIAL RESOURCES *(cont'd)*

Short-term borrowings amounted to approximately HK$63.1 million as at 31 December 2005 (2004: HK$43.1 million). This led to a rise in the gearing ratio (total borrowings over total equity) of the Group from 7.7% at 31 December 2004 to 10.5% at 31 December 2005. All the short-term borrowings outstanding as at 31 December 2004 were fully repaid during the year, and new borrowings, comprising bank borrowings and borrowing from a fellow subsidiary, were arranged for funding the daily operations. Majority of the Group's banking facilities remained unutilised as at 31 December 2005.

As at 31 December 2005, borrowings denominated in RMB amounted to approximately RMB64.5 million (2004: RMB44.7 million), while the remaining balances were bank borrowings denominated in Hong Kong dollars. All of the Group's borrowings were payable within one year and on a floating interest rate basis. Despite the increase in borrowings as at 31 December 2005, finance costs for the year ended 31 December 2005 decreased to approximately HK$0.6 million (2004: HK$1.4 million), which was mainly due to the higher average balance of the borrowings in 2004, and majority of the borrowings in 2005 were arranged for funding the Haitian Garden, of which the relevant finance cost was fully capitalised.

Capital commitments of the Group as at 31 December 2005 amounted to approximately HK$275.9 million (2004: HK$29.5 million). These commitments mainly relate to property development and are to be financed by internal funds and borrowings.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the transactions of the Group were denominated in Hong Kong dollars, RMB and US dollars. The Group had not implemented major hedging or other alternative measures during the year ended 31 December 2005 as the expected appreciation of RMB will benefit the Group as a whole and other foreign currency risk exposure was considered to be minimal. As at 31 December 2005, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS

As at 31 December 2005, the Group pledged certain investment properties and leasehold land and buildings with carrying amounts of approximately HK$236.3 million (2004: HK$215.0 million) and HK$8.8 million (2004: Nil) respectively and fixed bank deposits of approximately HK$5.0 million (2004: HK$38.1 million) as securities for the Group's general banking facilities.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in Note 31 to the financial statements.

EMPLOYEES

As at 31 December 2005, the Group employed 438 staff, including directors of the Company ("**Directors**") (2004: 300 staff). The total remuneration and benefits of the Directors and staff of the Group during the year ended 31 December 2005 were approximately HK$34.6 million (2004: HK$35.2 million). The Group adopts a remuneration policy in line with market practice.

By Order of the Board
Wang Xingdong
Managing Director

Hong Kong, 13 April 2006

The board of directors ("**Board**") of ONFEM Holdings Limited ("**Company**", together with its subsidiaries "**Group**") is committed to maintaining a high standard of corporate governance and believes that a set of well-balanced corporate governance practices will enable the Company to better manage its business risks and ensure that the Company is managed in the best interests of its shareholders.

In November 2004, The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") introduced (i) a revised Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), which sets out the "Code on Corporate Governance Practices" ("**Code**") and (ii) a new Appendix 23 of the Listing Rules ("**App. 23**"), which sets out the disclosure requirements for a "Corporate Governance Report". The Code and App. 23 are applicable for accounting periods commencing on or after 1 January 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July 2005. The Code replaces the Code of Best Practices and sets out the principles of good corporate governance and two levels of recommendations, namely (a) Code Provisions ("**CPs**" or individually "**CP**"), which issuers are expected to comply with or to give considered reasons for any deviations; and (b) Recommended Best Practices, which are for guidance only.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company ("**Directors**" or individually "**Director**"), throughout the year ended 31 December 2005, the Company has complied with the CPs of the Code, except for the deviation in respect of the rotation of directors under CP A.4.2 of the Code as a result of the compliance with the legislation of the place of incorporation of the Company.

Under CP A.4.2 of the Code, all Directors appointed to fill a casual vacancy should be subject to election by the shareholders of the Company ("**Shareholders**") at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

According to the new Bye-laws of the Company ("**New Bye-laws**") adopted on 26 May 2005, every Director (except the Chairman and the Managing Director ("**MD**")), including those appointed by a specific term, should be subject to retirement by rotation at the annual general meeting at least once every 3 years and all Directors, whether appointed by the Board or the Shareholders in general meeting, to fill a casual vacancy or as an additional Director should be subject to election by the Shareholders at the first annual general meeting after their appointment.

At its annual general meeting for 2005, all Directors, except for the Chairman and the MD, have been subject to retirement by rotation in accordance with the Bye-laws of the Company in force before the adoption of the New Bye-laws. Pursuant to the private company act 1991 under which the Company was incorporated in Bermuda, the Chairman and the MD are not subject to retirement by rotation, which is a deviation from CP A.4.2 of the Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("**Model Code**") prior to the establishment of a set of guidelines in March 2005 as its own "Rules and Procedures for Directors and Relevant Employees of the Company in respect of Dealings in Securities of the Company" ("**Rules for Securities Transactions**") on no less exacting terms than the required standard of the Model Code. A designated committee ("**Designated Committee**") comprising 2 members has also been established for receiving notifications from and issuing dated written acknowledgements to the Directors and the relevant employees of the Company.

Under the Rules for Securities Transactions, the Directors and the relevant employees of the Company are required to notify any one member of the Designated Committee and receive a dated written acknowledgement before dealing in the securities of the Company, and in the case of a member of the Designated Committee, he or she must notify another member of the Designated Committee and receives a dated written acknowledgement before any such dealing.

The Company has made specific enquiry of all Directors and has received a written confirmation from each Director confirming that he/she has complied with the Rules for Securities Transactions and the Model Code for the year ended 31 December 2005 in relation to his/her securities dealings, if any.

CORPORATE GOVERNANCE STRUCTURE

The Board has put in place a corporate governance structure for the Company and is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. Under the Board, there are currently 4 board committees, namely Audit Committee, Executive Committee, Investment Committee and Remuneration Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Company is managed by the Board which has the responsibility for promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company. The Directors are aware of their collective and individual responsibilities to the Shareholders.

The Board currently comprises 8 Directors, including 5 Executive Directors (including Mr. Zhou Zhongshu (see *Note*) who is the Chairman) and 3 Independent Non-executive Directors ("**INEDs**"). All INEDs are appointed for a specific term of 3 years subject to the retirement and re-appointment provisions of the New Bye-laws. Details of all Directors are disclosed in "Directors' and Senior Management's Profile" section of this annual report. To the best knowledge of the Company, there are no financial, business, family or other material/relevant relationships amongst members of the Board.

Pursuant to Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed 3 INEDs, and one of whom has the appropriate professional qualifications or accounting or related financial management expertise.

A written confirmation was received from each of the INEDs, Mr. Lam Chun, Daniel ("**Mr. Lam**"), Mr. Selwyn Mar ("**Mr. Mar**") and Ms. Tam Wai Chu, Maria ("**Ms. Tam**"), confirming their independence pursuant to Rule 3.13 of the Listing Rules.

BOARD OF DIRECTORS *(cont'd)*

Mr. Lam is an honorary consultant of Shanghai City Development Law Firm 上海市建緯律師事務所 ("**SCD**"), a lawyer firm in the People's Republic of China ("**PRC**") which is the legal advisor acting for a wholly owned subsidiary of the Company in a litigation proceeding conducted in the PRC and also provides other legal services to the Group from time to time. Mr. Lam is not a director, partner, principal or employee of SCD nor has any administrative or management role in SCD. Mr. Lam further confirms that he receives no economic or monetary benefit from the position nor do any obligations or duties arise which he must or is encouraged to perform.

The Company considers that all of the INEDs to be independent.

For the year ended 31 December 2005, other than resolutions passed by means of resolutions in writing of all Directors, the Board held 7 meetings. Notice of at least 14 days is given for a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance records of individual Directors at the meetings of the Board and the attendance records of individual members at the meetings of the Audit and the Remuneration Committees held for the year ended 31 December 2005:

	Number of meetings attended/Number of meetings held for the year ended 31 December 2005		
Designation and Name	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director and Chairman			
Lin Xizhong (see *Note*)	5/7	N/A*	1/1
Executive Director and Managing Director			
Wang Xingdong	7/7	N/A*	1/1
Executive Director and Deputy Managing Director			
Yan Xichuan	4/7	N/A*	N/A*
Executive Directors			
Qian Wenchao	6/7	N/A*	N/A*
He Xiaoli	7/7	N/A*	N/A*
Independent Non-executive Directors			
Lam Chun, Daniel	5/7	4/4	1/1
Selwyn Mar	4/7	4/4	1/1
Tam Wai Chu, Maria	5/7	4/4	1/1

* "N/A": Not applicable

BOARD OF DIRECTORS *(cont'd)*

To enhance better communication with the Directors as to the business transacted at the Board meetings, soft copies of the final version of the minutes of the Board meetings were provided to the Directors by electronic mails.

In addition, the Company has maintained a set of procedures for the Directors to seek independent professional advice, in appropriate circumstances, and at the Company's expenses, in the process of discharging their duties to the Company, and also arranged liability insurance coverage for the Directors and its officers.

CHAIRMAN AND MD

The positions of the Chairman of the Board and the MD are held by Mr. Zhou Zhongshu (see *Note*) and Mr. Wang Xingdong respectively. This segregation ensures that a clear distinction between the Chairman's responsibility to manage the Board and the MD's responsibility to manage the Company's business. The respective responsibilities of the Chairman and the MD are set out in an internal document entitled "Guidelines in respect of the Responsibilities of the Board of Directors".

NOMINATION OF DIRECTORS

Although the Board has not established a nomination committee, the Board meets on a regular basis to:

a. review the composition and membership of the Board, inter alia, the length of services and the breadth of expertise of the Board as a whole;

b. identify and nominate to the Board suitable candidate(s) who possess(es) the expertise which is relevant and beneficial to the Group's business; and

c. assess the independence of the Company's INEDs.

INTERNAL CONTROLS

The Board is responsible for developing an internal control system of the Group, and maintaining and reviewing the effectiveness of such system to protect the Shareholders' interests and to safeguard the Group's assets. Such internal control system is implemented by the management upon the authorisation of the Board and reviewed by the Audit Committee from time to time.

The Group's internal audit department is responsible for performing risk-driven audits to inspect and evaluate the Group's financial, operational and compliance controls and risk management on a regular or as-needed basis. Internal audit reports which furnished independent and objective evaluations and recommendations were then submitted directly to the Audit Committee, with the purpose of ensuring that the effectiveness of the internal control system of the Group is improving continuously. The Audit Committee would make recommendations to the management and submit regular reports to the Board on the basis of such audit findings and views.

AUDITORS' REMUNERATION

For the year ended 31 December 2005, Messrs. PricewaterhouseCoopers ("**PwC**"), the external auditors of the Group received approximately HK$1.40 million (2004: HK$1.52 million) for audit services, and approximately HK$0.22 million (2004: HK$0.14 million) for non-audit services, including fees for review of interim report and tax services.

BOARD COMMITTEES

A. AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Mar (chairman of the Committee), Ms. Tam and Mr. Lam, who are all INEDs. In line with its terms of reference approved by the Board, the Audit Committee is principally responsible for providing independent review of the effectiveness of the financial reporting procedures and the internal control system of the Group; reviewing the appointment of independent auditors and the efficiency and quality of their work; and reviewing all internal audit reports as well as management feedback to such reports.

The major tasks accomplished by the Audit Committee for the year ended 31 December 2005 are as follows:

a. reviewed and submitted the financial statements of the Group for the year ended 31 December 2004 and the auditors' report thereon to the Board;

b. reviewed the unaudited interim report for the six months ended 30 June 2005 based on the review conducted by the Group's external auditors in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants, as well as obtaining reports from the management of the Group;

c. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;

d. reviewed the accounting principles and practices adopted by the Group with the management of the Group;

e. assisted the Board in conducting independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control system;

f. constantly reviewed internal audit reports and the Group's approaches to audit planning and reports;

g. furnished its opinion to the management of the Group concerning related risks in respect of significant matters of the Group; and

h. reviewed and made recommendations on the remuneration and terms of engagement of the external auditors on audit and non-audit services.

BOARD COMMITTEES *(cont'd)*

B. REMUNERATION COMMITTEE

In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review and discuss the remuneration mechanism and incentive scheme of the Directors and senior management, and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the Directors and senior management.

The Remuneration Committee comprises 5 members, including the Chairman, the MD and three INEDs. Mr. Zhou Zhongshu (see *Note*) is the chairman of the Remuneration Committee.

The Remuneration Committee convened 1 meeting for the year ended 31 December 2005. The remuneration of the INEDs and certain senior management staff was discussed at the meeting.

During the year under review, the Remuneration Committee reviewed and adjusted the fringe benefits of individual Directors. The emoluments of the Directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the financial statements for the year ended 31 December 2005, the Directors ensured that the financial statements are in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the financial statements on a going concern basis. The Directors are also responsible for the timely publication of the financial statements of the Group.

The statement of the auditors of the Company, PwC, about their reporting responsibilities on the financial statements of the Group is set out in the "Auditors' Report" section of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Note: On 28 February 2006, Mr. Zhou Zhongshu was appointed and Mr. Lin Xizhong ceased to act as an Executive Director and the Chairman of the Board.

DIRECTORS

Mr. ZHOU Zhongshu, aged 53, was appointed as an Executive Director and the Chairman of ONFEM Holdings Limited ("**Company**") in February 2006. Mr. Zhou is the President of China Minmetals Corporation ("**China Minmetals**") and the Chairman of China Minmetals Non-ferrous Metals Company Limited and China Minmetals H.K. (Holdings) Limited ("**Minmetals HK**"). Mr. Zhou is also the Chairman of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) and a Non-executive Director and the Chairman of Minmetals Resources Limited (a company listed on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**")).

Mr. Zhou graduated from the Shanghai International Studies University in the People's Republic of China ("**PRC**") and majored in Spanish language. He joined China Minmetals in 1978. From 2000 to 2002, Mr. Zhou was Commercial Counsellor of Chinese Embassy in Spain. Mr. Zhou has over 25 years of experience in international trading, strategic investment and real estate development business.

Mr. LIN Xizhong, aged 61, was appointed as an Executive Director and the Chairman of the Company in November 2003 and has resigned since February 2006. Mr. Lin is also the Chairman of AXA-Minmetals Assurance Limited in Shanghai, a Director of AXA Asia Pacific Holdings Limited and an external Director of China Chengtong Holdings Company from December 2005 onwards.

Mr. Lin earned his Bachelor of Arts degree in Literature from the Beijing Foreign Studies University in 1973. From 1995 to 1998, he was the representative of the PRC in APEC Business Advisory Council of Asia-Pacific Economic Cooperation Organisation. He was the Vice Chairman of First Pacific Bank in Hong Kong during 1993 to 2000. Mr. Lin has over 30 years of experience in international trading, strategic investment and corporate financial management.

Mr. WANG Xingdong, aged 45, was appointed as an Executive Director and the Managing Director of the Company in March 2001, responsible for the operation of and strategic planning for the Company. He is also a Director of Minmetals HK and a Non-executive Director of China Merchants China Direct Investments Limited.

Mr. Wang graduated from the Xiamen University in 1982 with a Bachelor of Arts degree. He then continued his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, U.S.A..

Prior to joining the Company, he was a member of senior management of both U.S.A. and German corporations carrying on trading business of metals and mineral products for many years. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.

DIRECTORS *(cont'd)*

Mr. YAN Xichuan, aged 59, was appointed as an Executive Director and a Deputy Managing Director of the Company in August 2002. He is responsible for monitoring the operation and strategic planning of the subsidiary groups of the Company, which are principally engaged in specialised construction business.

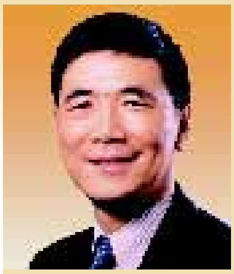
Mr. Yan graduated from the Chongqing Architectural University in 1970 and is a qualified senior engineer. He joined China State Construction Engineering Corporation in 1970 and was transferred to China Overseas Holdings Limited ("**COHL**") in 1984. Mr. Yan was the General Manager of China Overseas Civil Engineering Limited, the Assistant General Manager of the Investments Department of COHL and the President of Gold Court Property Management Limited and was responsible for supervision of civil engineering work, real estate investment and property management etc.

Mr. Yan was involved in various construction projects in the PRC and Hong Kong and has over 30 years of experience in construction and project management.

Mr. QIAN Wenchao, aged 41, was appointed as an Executive Director of the Company in November 2003. Mr. Qian is also a Director of Minmetals HK. He earned his Bachelor of Arts degree in Economics from the Beijing Technology and Business University and completed his graduate study in accounting in the same university in 1987 and 1989 respectively. He joined China Minmetals in 1989 and has worked in the Overseas Enterprises Division of China Minmetals with responsibilities in financial management. Mr. Qian has over 10 years of experience in corporate financial management.

Ms. HE Xiaoli, aged 38, was appointed as an Executive Director of the Company in February 2002. She is also the General Manager of the Finance Department of the Company. Ms. He holds a Bachelor's degree in Accounting from the North China University of Technology and a Master's degree in Business Administration from the University of South Australia, and is also a PRC Senior Accountant and a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Company, she was the Head of Business Division and the Deputy Minister of Accounting Information Division of the Finance Department of previous China National Nonferrous Metals Industry Corporation. Ms. He has extensive experience in financial management of PRC enterprises.

DIRECTORS *(cont'd)*



Mr. LAM Chun, Daniel, aged 60, was appointed as an Independent Non-executive Director of the Company in May 1997. Mr. Lam is the Director – Property of Kowloon-Canton Railway Corporation, an Authorized Person under the Buildings Ordinance and a Registered Professional Surveyor. He is a fellow member of the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators. He is also a fellow member and the Past President (1986-1987) of the Hong Kong Institute of Surveyors, and a fellow member and the Past Chairman (1997-2000) of the Hong Kong Institute of Arbitrators. Mr. Lam is a member of the Administrative Appeals Board and was a member of the Hong Kong Housing Authority and Chairman of its Building Committee, a member of the Hong Kong Surveyors Registration Board and a consultant to the World Bank on the Urban Land Policies Study for the PRC. He is also a Council Member of the Hong Kong International Arbitration Centre. Mr. Lam had worked in the Hongkong Land Group, Architectural Services Department, Housing Department, Hongkong Bank Group, Sime Darby Group, China Light & Power Group and was a former Executive Director of Tian An China Investments Company Limited and the former Chairman of DCL Consultants Limited. Mr. Lam has over 30 years of experience in the surveying profession.

Mr. Selwyn MAR, aged 70, was appointed as an Independent Non-executive Director of the Company in November 2002. Mr. Mar graduated from the London School of Economics, University of London. He is a Chartered Accountant, the Managing Partner of Nexia Charles Mar Fan & Co., Certified Public Accountants and the Managing Director of Marfan & Associates Limited. Mr. Mar was the President of the Hong Kong Institute of Certified Public Accountants in 1991, a member of the Appeals Panel of Securities & Futures Commission and a member of the Board of Governors of Chinese International School. Mr. Mar was active in commercial and industrial undertakings in Hong Kong and PRC in the past 28 years. Presently, he sits on the board of two Hong Kong listed companies. Mr. Mar is an Honorary Fellow of the Lingnan University.

Ms. TAM Wai Chu, Maria, aged 60, was appointed as an Independent Non-executive Director of the Company in April 1997. Ms. Tam holds a Bachelor's degree in Law from the University of London. She has been a practising barrister since 1972. Ms. Tam is currently involved in numerous community services, which include the Deputy of the National Peoples' Congress of the PRC, a member of the Basic Law Committee of the Hong Kong Special Administrative Region, a member of the Bar Association, a board member of the Urban Renewal Authority, a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption and a member of the Commission on Strategic Development.

SENIOR MANAGEMENT

Mr. LI Tan, aged 49, was appointed as a Deputy General Manager of the Company and the General Manager of the Company's Real Estate Development Department in June 2003, responsible for strategic planning, management and development of the Company's business in real estate development and the operation of self-owned properties.

Mr. Li holds a Master's degree in Business Administration from the Hongkong International Business College and a Master's degree in Construction Economics and Project Management from the Tongji University. He is a Chartered Builder of both of the Chartered Institute of Building, United Kingdom and the American Institute of Constructors and a member of several professional institutes in construction and building industry.

Prior to joining the Company, Mr. Li was a director and a project director of various corporations. He has over 27 years of experience in real estate development and management, construction, professional consultant services, corporate and investment project management in Hong Kong and the PRC.

Ms. YUEN Wai Man, aged 33, joined the Company in May 2002 and is the Financial Controller of the Company. Ms. Yuen was appointed as the Qualified Accountant of the Company in March 2004. She holds a degree of Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology and is a fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Company, she was the qualified accountant of a company listed on The Growth Enterprise Market of the Stock Exchange. Ms. Yuen has extensive experience in financial and general management.

Miss. SIU Tin Ho, aged 41, joined the Company in May 2000 and is the Company Secretary of the Company. She graduated from the City University of Hong Kong and is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Prior to joining the Company, Miss Siu had worked for major accounting firms and sizeable listed groups and has extensive experience in company secretarial affairs.

Mr. XU Minluo, aged 49, was appointed as the General Manager of the Company's Construction Department in December 2002, responsible for overseeing the operation of the subsidiaries of the Company. Mr. Xu graduated from the Hua Chiao University in 1982 with a Bachelor of Science degree and obtained a Master's degree in Business Administration from the Murdoch University, Australia in 1998 and a Master's degree in Law from the Renmin University in January 2006. Prior to joining the Company, he was a member of senior management of various construction and real estate corporations in Hong Kong for many years. Mr. Xu has extensive experience in building construction, real estate development and corporate management.

SENIOR MANAGEMENT *(cont'd)*

Mr. SZETO Wai Hung, Augustine, aged 46, is the Managing Director of Jaeger Group. Mr. Szeto was appointed as the General Manager of the Company's Corporate Development Department in January 2005. He holds a Bachelor's degree in Commerce from the University of New South Wales, Australia and an EMBA degree from the Richard Ivey School of Business of the University of Western Ontario, Canada. He is a member of the Institute of Chartered Accountants in Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Szeto joined Jaeger Group in 1993 as the Financial Controller and became the General Manager in 1994. He was appointed as the Managing Director of Jaeger Group in 1997 until present. Mr. Szeto has over 20 years of experience in manufacturing operation, financial and general management.

Ms. CHEN XIE Ying, aged 42, joined the Company in April 2003 and is the Internal Audit Manager of the Company. Ms. Chen holds a Master's degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Company, she was the head of internal audit department and a member of the risk management committee of a financial institution listed on the Stock Exchange for many years. Ms. Chen has extensive experience in investment, internal control and risk management.

Ms. WONG Mei Yee, aged 44, joined the Company in May 1993 and is the Human Resources Manager of the Company. Ms. Wong is responsible for administration and human resources management of the Company and has extensive experience in corporate administration and human resources management.

The board of directors ("**Directors**") of ONFEM Holdings Limited ("**Company**", together with its subsidiaries "**Group**") would like to submit the annual report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in Note 17 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 40.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 24 to the financial statements.

RESERVES

Movements in reserves of the Group and of the Company during the year are set out in Note 25 to the financial statements.

PROPERTIES

Particulars of the Group's major properties held for investment and for development purposes are set out on page 103.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive Directors
Zhou Zhongshu *(appointed on 28 February 2006)*
Lin Xizhong *(resigned on 28 February 2006)*
Wang Xingdong
Yan Xichuan
Qian Wenchao
He Xiaoli

Independent Non-executive Directors
Lam Chun, Daniel
Selwyn Mar
Tam Wai Chu, Maria

Mr. Qian Wenchao, Ms. He Xiaoli, Mr. Selwyn Mar ("**Mr. Mar**") and Ms. Tam Wai Chu, Maria ("**Ms. Tam**") retire from office in accordance with Article 111(A) of the Company's Bye-Laws and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the Directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("**SFO**")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, as recorded in the register kept by the Company pursuant to section 352 of the SFO, were as follows:

Long Position in Shares of the Company

(a) *Shares*

Name of Director	Nature of interest	Number of ordinary shares held
He Xiaoli	Personal	20,000

(b) *Share options*

As at 31 December 2005, the following outstanding share options were granted to the Directors on 15 March 2004 under the share option scheme adopted by the Company on 29 May 2003:

Name of Director	Date of acceptance of share options	Exercise period of share options	Exercise price of share options	Number of share options outstanding as at 31 December 2005
			HK$	
Lin Xizhong	16 March 2004	16 March 2004 to 15 March 2007	0.83	4,000,000 #
Wang Xingdong	16 March 2004	16 March 2004 to 15 March 2007	0.83	3,000,000
Yan Xichuan	16 March 2004	16 March 2004 to 15 March 2007	0.83	2,000,000
Qian Wenchao	16 March 2004	16 March 2004 to 15 March 2007	0.83	1,500,000
He Xiaoli	16 March 2004	16 March 2004 to 15 March 2007	0.83	1,500,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(cont'd)*

Save as disclosed above, as at 31 December 2005, none of the Directors or the chief executive of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**")) had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

During the year ended 31 December 2005, save as disclosed above, none of the Directors or the chief executive of the Company nor their spouses or children under 18 years of age, was granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SFO).

The share options granted to Mr. Lin Xizhong will lapse after 3 months from the effective date of his resignation.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the section entitled "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and the section entitled "Information Relating to Share Option Scheme" below, the Company had no other outstanding options, convertible securities, warrants or other similar rights as at 31 December 2005.

There was no repurchase or exercise of options and convertible securities during the year.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2005, according to the register of interests kept by the Company under section 336 of the SFO, the following entities have interests and short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long Position in Shares of the Company

Name of shareholder	Number of ordinary shares held	Percentage of total issued shares
China Minmetals Corporation ("**China Minmetals**") *(Note)*	416,585,852	53.95%
China Minmetals H.K. (Holdings) Limited ("**Minmetals HK**") *(Note)*	416,585,852	53.95%
June Glory International Limited ("**June Glory**")	416,585,852	53.95%

Note:

By virtue of the SFO, these companies are deemed to be interested in the 416,585,852 shares held by June Glory.

CONTRACTS OF SIGNIFICANCE

The following contracts of significance were entered into or subsisted between the Company or its subsidiaries and the Company's controlling shareholder or its subsidiaries during the year ended 31 December 2005:

1. Wilson Murray Far East Limited ("**WMFE**"), a wholly owned subsidiary of the Company, and Guangzhou Tian He Orienmet Property Co., Ltd. ("**GTH**"), an associate of Minmetals HK (which is the intermediate controlling shareholder of the Company), entered into a construction project management agreement dated 29 July 2004 ("**PM Agreement**"), of which details are set out below:

Parties:	WMFE as the project manager: and GTH as the sole owner of a 28-storey (with two basements levels) office complex with a total gross site area of approximately 4,411 square metres and estimated gross floor area on completion of approximately 37,220 square metres located at 610 Tian He Bei Road, Guangzhou, the People's Republic of China ("**Property**")
Purpose:	To provide construction project management services to the Property by WMFE pursuant to the PM Agreement
Services fees:	RMB40,000,000 in aggregate comprising the Basic Fee (as defined in the Company's announcement dated 29 July 2004) and the Incentive Fee (as defined in the Company's announcement dated 29 July 2004)

2. Zhuhai (Oriental) Blue Horrison Properties Company Limited ("**ZOBHP**"), a wholly owned subsidiary of the Company, and Minmetals Finance Company Limited ("**Minmetals Finance**"), an associate of Minmetals HK, entered into a RMB loan agreement dated 24 August 2005 ("**RMB Loan Agreement**"), of which details are set out below:

Amount of loan:	RMB50,000,000 ("**RMB Loan**")
Term:	6 months
Interest rate:	110% of the rate for Renminbi short-term loans as quoted by The People's Bank of China from time to time
Purpose of loan:	to finance the general working capital requirement of ZOBHP

3. Minmetals HK, Minmetals Finance and ZOBHP entered into a corporate guarantee dated 24 August 2005, pursuant to which Minmetals HK, as a guarantor, undertakes the repayment of the RMB Loan and the relevant interests and charges if ZOBHP does not repay the principal amount of the RMB Loan and the relevant interests and charges in accordance with the terms and conditions of the RMB Loan Agreement.

CONTRACTS OF SIGNIFICANCE *(cont'd)*

Save as disclosed above, no contracts of significance were entered into or subsisted between the Company or its subsidiaries and the Company's controlling shareholder or its subsidiaries during the year ended 31 December 2005.

No contract of significance to which the Company, any of its holding companies, or any of their subsidiaries was a party, in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts for management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the year is as follows:

	Percentage of the Group's total			
	Sales		Purchases	
	2005	2004	**2005**	2004
The largest customer	**18.0%**	9.0%		
Five largest customers in aggregate	**43.8%**	19.9%		
The largest supplier			**30.9%**	14.9%
Five largest suppliers in aggregate			**48.3%**	29.5%

China Minmetals, the ultimate controlling shareholder of the Company, indirectly holds approximately 95% equity interest in GTH which is one of the five largest customers of the Group during the year.

Save as disclosed above, at no time during the year, have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the above major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

INFORMATION RELATING TO SHARE OPTION SCHEME

On 29 May 2003, the Company adopted a new share option scheme ("**Scheme**") which is in compliance with Chapter 17 of the Listing Rules.

A summary of the Scheme is set out as follows:

1.	Purpose of the Scheme	To recognise and acknowledge the contributions that the eligible person had made or may from time to time make to the Group whether in the past or in the future
2.	Participants of the Scheme	Any directors or any employees of any company of the Group and any advisers of, consultants of, contractors to any company of the Group or any person who has any relationship (whether business or otherwise) with any company of the Group or any person whom the Directors consider, in their sole discretion, has contributed or will contribute or can contribute to the Group
3.	Maximum number of shares	The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time
4.	Total number of shares available for issue upon exercise of all options under the Scheme	77,218,178 shares unless shareholders' approval has been obtained according to the requirements of the Listing Rules, being 10% of the issued share capital of the Company at the date of approval of the Scheme by the shareholders of the Company
5.	Maximum entitlement of each participant under the Scheme	No options under the Scheme may be granted to any eligible person, which, if exercised in full, would result in the total number of shares issued and to be issued upon the exercise of the options already granted or to be granted to such eligible person under the Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital as at the date of such new grant. Any grant of further options above this limit shall be subject to the requirements under the Listing Rules
6.	The period within which the shares must be taken up under an option	The Directors may in their absolute discretion determine the period during which an option may be exercised and notify each grantee, save that such period shall not be later than 10 years from the date on which the Directors make an offer of the option subject to the provisions for early termination thereof

INFORMATION RELATING TO SHARE OPTION SCHEME *(cont'd)*

7.	The minimum period for which an option must be held before it can be exercised	Not applicable
8.	Time of acceptance and the amount payable on acceptance of the option	The offer of an option made in accordance with the Scheme may be accepted within 28 business days from the date of the offer and the amount payable on acceptance of the option is HK$10
9.	The basis of determining the subscription price	The subscription price shall be determined by the Directors at the time of grant of the relevant option and shall not be less than the highest of: (i) the closing price per share of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the grant of the relevant option; (ii) the amount equivalent to the average closing price per share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the relevant option; and (iii) the nominal value of a share of the Company
10.	The remaining life of the Scheme	The Scheme was adopted on 29 May 2003 and will remain in force for a period of 10 years from the date of adoption

INFORMATION RELATING TO SHARE OPTION SCHEME *(cont'd)*

As at 31 December 2005, details of the outstanding share options, all of which were granted on 15 March 2004 and have not been exercised, are as follows:

Category of participant		Exercise period of share options	Exercise price of share options HK$	Number of share options lapsed during the year	Number of share options outstanding as at 31 December 2005
(i)	Directors	16 March 2004 to 15 March 2007	0.83	–	12,000,000
(ii)	Employees of the Group	17 March 2004 to 26 April 2007*	0.83	800,000	8,100,000

Details of the outstanding share options held by each Director are set out in the section entitled "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above. Save as disclosed above, no share options lapsed or were cancelled in accordance with the terms of the Scheme during the year.

* *The exercise period for the share options granted to each employee of the Group lasts 3 years commencing from the date of acceptance of the share options by each respective employee.*

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on the notices submitted to the Company pursuant to the SFO, the Directors are of the view that sufficient public float exists for the issued shares of the Company as at the date of this report.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company comprises three Independent Non-executive Directors, namely, Mr. Lam Chun, Daniel, Mr. Mar and Ms. Tam. The audit committee has reviewed with the auditors the audited financial statements for the year ended 31 December 2005 and has also discussed auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

AUDITORS

Messrs. PricewaterhouseCoopers ("**PwC**") were appointed as the auditors of the Company with effect from 11 October 2002 following the combination of practices of PwC and Aurther Andersen & Co. on 1 July 2002.

The financial statements have been audited by PwC who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

CONNECTED TRANSACTION

On 11 April 2006, Karman Industries Limited ("**KIL**"), Stillpower Limited ("**SL**"), World Ocean Development Limited ("**WODL**") and Oriental Dragon Construction Limited ("**ODCL**" or "**Joint Venture Company**") entered into a shareholders' agreement ("**Shareholders' Agreement**") in respect of ODCL. Details of the Shareholders' Agreement have been published in the Company's announcement dated 11 April 2006 ("**Announcement**").

KIL and SL (collectively, "**ONFEM SPV**") are wholly owned subsidiaries of the Company while ODCL is a wholly owned subsidiary of the Company before completion of the transfer of a 29% equity interest in ODCL from KIL to WODL ("**Share Transfer**") and will become a Joint Venture Company and be owned as to 71% by ONFEM SPV and 29% by WODL upon completion of the Share Transfer.

WODL is wholly owned by Mr. Tsui Ki Ting ("**Mr. Tsui**") and his associates while Mr. Tsui is a director of Dragon Construction (Nanjing) Properties Company Limited ("**Project Company**") which is wholly owned by ODCL and established for the purpose of undertaking the property development on a piece of land located in Nanjing, the PRC ("**Land**") acquired by ODCL in a public tender at a price of RMB160,000,000.

The Shareholders' Agreement sets out, amongst other things, the Share Transfer, how the Joint Venture Company will be managed and operated and the funding arrangements for the Joint Venture Company and the Project Company, which include the provision of the Excess Loan (as defined in the Announcement) and the Further Financing (as defined in the Announcement) (if any).

The formation of the Joint Venture Company including the provision of the Excess Loan ("**Transaction**") is a major and connected transaction of the Company, which has been approved by June Glory, the immediate controlling shareholder of the Company. A circular containing information regarding, amongst other matters, the Shareholders' Agreement, a valuation report of the Land, the advice from the Independent Board Committee (as defined in the Announcement) to the Independent Shareholders (as defined in the Announcement) and the opinion of the independent financial adviser in connection with the Transaction will be dispatched to the shareholders of the Company.

CONTINUING CONNECTED TRANSACTIONS

1. Brena Company Limited ("**Brena**") is a wholly owned subsidiary of the Company while Texion Development Limited ("**Texion**") is a wholly owned subsidiary of Minmetals HK, the intermediate controlling shareholder of the Company holding approximately 53.95% of the issued share capital of the Company. On 31 May 2004, Brena as tenant and Texion as landlord entered into a tenancy agreement ("**Tenancy Agreement**") of which details are set out below:

Property:	18th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong
Period:	1 June 2004 to 31 May 2006
Rental:	HK$63,723.00 per calendar month (exclusive of government rates, service, management and air-conditioning charges)
Other charges:	HK$24,331.00 per calendar month (being the tenant's share of service, management and air-conditioning charges)

2. Enful Engineering Limited ("**EEL**") is a wholly owned subsidiary of the Company while Cheemimet Finance Limited ("**Cheemimet**") is a wholly owned subsidiary of Minmetals HK. On 21 June 2004, EEL as licensee and Cheemimet as licensor entered into a licence agreement ("**Licence Agreement**") of which details are set out below:

Property:	certain portions of 16th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong
Period:	16 June 2004 to 31 May 2006
Licence fee:	HK$17,922.10 per calendar month (exclusive of management fee, government rates and other outgoings)
Other charges:	HK$6,843.10 per calendar month (being the licensee's share of the management fee)

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Independent Non-executive Directors of the Company had reviewed the transactions contemplated under the Tenancy Agreement and the Licence Agreement for the year ended 31 December 2005 (collectively, "**Transactions**") and confirmed that the Transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the terms of each of the Tenancy Agreement and the Licence Agreement that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PwC, the auditors of the Company, had reviewed the Transactions and reported that:

(a) the Directors have approved the Transactions upon entering into the Tenancy Agreement and the Licence Agreement governing such Transactions;

(b) the Transactions have been entered into in accordance with the terms of each of the Tenancy Agreement and the Licence Agreement; and

(c) the transactions contemplated under the Tenancy Agreement have not exceeded the annual cap as disclosed in the announcement of the Company dated 31 May 2004.

CONTINUING DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

On 16 August 2005, ONFEM Finance Limited ("**OFL**"), EEL, Jaeger Oil & Chemical Company Limited ("**JOC**") and Virtyre Limited ("**Virtyre**"), all being wholly owned subsidiaries of the Company, accepted the offers from a bank for the grant of various general banking facilities to the extent of an aggregate amount of approximately HK$156 million ("**Facilities**") pursuant to the facility letters all dated 28 July 2005 and issued to OFL, EEL, JOC and Virtyre respectively ("**Facility Letters**"). The Facilities have no specific date of expiry.

As one of the conditions of the Facilities, China Minmetals shall, directly or indirectly, maintain its major shareholding (not defined in the Facility Letters) in the Company during the life of the Facilities. A breach of the above condition will constitute an event of default and as a result, the Facilities will become immediately due and repayable.

Save as disclosed above, the Company does not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

SUBSEQUENT EVENTS

Details are set out in Note 34 to the financial statements.

By Order of the Board
Zhou Zhongshu
Chairman

Hong Kong, 13 April 2006

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
ONFEM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 40 to 102 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 *HK$'000*	2004 *HK$'000* *(restated)*
Turnover	5	**231,322**	86,605
Cost of sales		**(174,012)**	(42,830)
Gross profit		**57,310**	43,775
Other income	6	**10,317**	3,024
Selling and distribution costs		**(11,752)**	(12,370)
Administrative expenses		**(43,761)**	(31,411)
Other operating expenses		**(2,220)**	(2,930)
Revaluation gain on investment properties	15	**15,196**	23,633
Provision for properties under development		**–**	(25,000)
Gain on deconsolidation of subsidiaries		**–**	78,707
Write-back of provision for a bank guarantee		**–**	10,148
Operating profit	7	**25,090**	87,576
Finance costs	9	**(583)**	(1,385)
Profit before tax		**24,507**	86,191
Income tax	10	**3,642**	(1,082)
Profit for the year		**28,149**	85,109
Attributable to: Equity holders of the Company	11	**28,149**	85,109
Earnings per share for profit attributable to equity holders of the Company during the year *(expressed in HK cents)* – basic and diluted	12	**3.65**	11.02
Dividends	13	**–**	–

The notes on pages 46 to 102 are an integral part of these financial statements.

	Note	2005 HK$'000	2004 HK$'000 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**15,346**	10,173
Investment properties	15	**239,899**	229,890
Leasehold land and land use rights		**–**	2,839
Goodwill	16	**19,383**	11,491
Available-for-sale financial assets/Non-trading securities	18	**29,340**	28,440
Deferred tax assets	26	**932**	932
Retention receivables	21	**4,539**	879
Other assets		**349**	1,716
		309,788	286,360
Current assets			
Inventories	19	**214,796**	202,491
Trade and other receivables	20	**161,982**	83,490
Gross amounts due from customers for contract work	21	**744**	1,684
Financial assets at fair value through profit or loss/ Trading securities	22	**2,778**	2,489
Pledged deposits	28	**5,000**	38,100
Cash and bank deposits	23	**143,347**	120,839
		528,647	449,093
Total assets		**838,435**	735,453

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	24	**77,218**	77,218
Reserves	25	**522,816**	483,842
Total equity		**600,034**	561,060
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	26	**105**	105
Other liabilities		**7,220**	6,934
		7,325	7,039
Current liabilities			
Trade and other payables	27	**157,600**	108,566
Gross amounts due to customers for contract work	21	**–**	810
Current tax payable		**10,382**	14,847
Short-term borrowings	28	**63,094**	43,131
		231,076	167,354
Total liabilities		**238,401**	174,393
Total equity and liabilities		**838,435**	735,453
Net current assets		**297,571**	281,739
Total assets less current liabilities		**607,359**	568,099

Wang Xingdong
Director

He Xiaoli
Director

The notes on pages 46 to 102 are an integral part of these financial statements.

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	17	**547,582**	496,309
Other assets		**–**	1,312
		547,582	497,621
Current assets			
Other receivables	20	**1,002**	1,052
Pledged deposits	28	**5,000**	9,500
Cash and bank deposits	23	**49,976**	75,457
		55,978	86,009
Total assets		**603,560**	583,630
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	24	**77,218**	77,218
Reserves	25	**505,027**	503,682
Total equity		**582,245**	580,900
LIABILITIES			
Current liabilities			
Other payables	27	**21,315**	2,730
Total liabilities		**21,315**	2,730
Total equity and liabilities		**603,560**	583,630
Net current assets		**34,663**	83,279
Total assets less current liabilities		**582,245**	580,900

Wang Xingdong
Director

He Xiaoli
Director

The notes on pages 46 to 102 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January,		
as previously reported as equity	**561,165**	474,707
Reclassification of minority interest as part of equity *(see Note 2(a))*	**–**	25,033
Deferred tax arising from the revaluation of investment properties on the adoption of HK(SIC)-Int 21 *(see Note 2(a))*	**(105)**	–
Balance at 1 January, as restated before opening adjustment	**561,060**	499,740
Opening adjustment on derecognition of negative goodwill on the adoption of HKFRS 3 *(see Note 2(a))*	**7,467**	–
Balance at 1 January, as restated	**568,527**	499,740
Revaluation surplus of available-for-sale financial assets	**900**	–
Currency translation adjustments	**2,458**	2,247
Release of reserve upon liquidation of a subsidiary	**–**	(1,003)
Acquisition of additional interest in a subsidiary	**–**	(25,033)
Net increase/(decrease) in equity before profit for the year	**3,358**	(23,789)
Profit for the year, attributable to equity holders of the Company	**28,149**	85,109
Balance at 31 December	**600,034**	561,060

The notes on pages 46 to 102 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (restated)
Operating activities			
Cash generated from/(used in) operations	30	**1,182**	(28,554)
Interest paid		**(6,837)**	(3,095)
Income tax paid		**(823)**	(977)
Net cash used in operating activities		**(6,478)**	(32,626)
Investing activities			
Purchase of property, plant and equipment		**(3,993)**	(3,606)
Proceeds from disposal of property, plant and equipment		**7,426**	480
Proceeds from disposal of leasehold land and land use rights		**2,839**	–
Dividends received		**393**	449
Interest received		**2,358**	2,383
Acquisition of additional interest in a subsidiary		**–**	(12,088)
Acquisition of a subsidiary, net of cash acquired		**–**	4,548
Deconsolidation of subsidiaries		**–**	(413)
Net cash generated from/(used in) investing activities		**9,023**	(8,247)
Financing activities			
New borrowings		**61,991**	2,152
Repayment of borrowings		**(41,973)**	(3,845)
Net cash generated from/(used in) financing activities		**20,018**	(1,693)
Increase/(decrease) in cash and cash equivalents		**22,563**	(42,566)
Cash and cash equivalents at 1 January		**119,681**	162,247
Cash and cash equivalents at 31 December	23	**142,244**	119,681

The notes on pages 46 to 102 are an integral part of these financial statements.

1. ORGANISATION AND OPERATIONS

ONFEM Holdings Limited ("**Company**") and its subsidiaries (collectively, "**Group**") is principally engaged in real estate development, 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) ("**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 an investment holding company. The Company has its primary listing on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") .

The financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. The financial statements have been approved for issue by the board of directors of the Company on 13 April 2006.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the 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 financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"). The 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, which are carried at fair value.

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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

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

(a) Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements and current year classification.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK(SIC)-Int 27	Evaluating the Substance of Transaction Involving the Legal Form of a Lease
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

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

(a) Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS (cont'd)

(i) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37, HK-Int 4, HK(SIC)-Ints 15 and 27 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

– HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 27, 33, 37, HK-Int 4, HK(SIC)-Ints 15 and 27 have no material effect on the Group's accounting policies.

(ii) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights under operating leases from property, plant and equipment. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. If the lease payment for a lease of land and building cannot be allocated reliably between the land and building elements, the entire lease is classified as a finance lease and the leasehold land and building is stated collectively at cost less accumulated depreciation and accumulated impairment. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

(iii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of trading and non-trading securities into financial assets at fair value through profit or loss and available-for-sale financial assets.

(iv) The adoption of revised HKAS 40 has resulted in a change in the accounting policy whereby the changes in fair value of investment properties are recorded in the income statement. In prior years, the increases in fair value were credited to the investment properties revaluation reserve while decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

(v) The adoption of revised HK(SIC)-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the basis of measurement was to assume that the carrying amount of that asset was expected to be recovered through sale.

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

(a) Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS (cont'd)

(vi) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective 1 January 2005, the Group expenses the cost of share options in the income statement. There is no impact on the prior year financial statements as the Group had no unvested share options outstanding as at 1 January 2005.

(vii) The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. Until 31 December 2004,

– Goodwill was amortised on a straight-line basis over a period ranging from 5 to 15 years and assessed for an indication of impairment at each balance sheet date.

– Negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3:

– For previously recognised goodwill, the Group ceased amortisation from 1 January 2005 and the accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

– For previously recognised negative goodwill, the carrying amount of negative goodwill at 1 January 2005 was derecognised, with a corresponding adjustment to the opening balance of retained earnings.

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

(a) Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS (cont'd)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

- HKAS 40 – since the Group has adopted the fair value model and disclosed publicly the fair value of the investment properties, the Group is encouraged, but not required, to adjust the opening balance of retained earnings for the earliest period presented for which such fair value was disclosed publicly, and to restate comparative information for those periods. The Group has chosen to restate the 2004 comparatives;

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

- HKFRS 3 – applied prospectively after the adoption date, with any adjustment made to the retained earnings as at 1 January 2005.

The Group has not early adopted the following new standards or interpretations of HKFRS that have been issued but not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment):	Capital Disclosures
HKAS 19 (Amendment):	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 21 (Amendment):	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKFRS 7:	Financial Instruments: Disclosures
HK(IFRIC)-Int 4:	Determining Whether an Arrangement Contains a Lease

(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.

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

(b) Consolidation *(cont'd)*

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 *(see Note 2(j))*.

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.

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.

(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 HK dollars, which is the Company's functional and presentation currency.

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

(d) Foreign currency translation *(cont'd)*

(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.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

(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.

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.

(e) Revenue recognition

(i) Sales of completed properties

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

(ii) Operating lease rental income

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

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

(e) Revenue recognition *(cont'd)*

(iii) Contract revenue

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

(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. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

(f) Leases

(i) Operating lease

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 expensed in the income statement on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

(g) 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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases 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 are 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. 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, 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.

The 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 *(see Note 2(k))*.

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

(i) Investment properties

Property that is held for long-term rental 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 its costs, 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 performed in accordance with the guidance issued by the International Valuation Standards Committee. 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 resulting 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. PRINCIPAL 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. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

(k) Impairment of assets

Assets are reviewed for impairment annually and 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).

(l) Investments in securities

The Group classifies its investments in securities, other than investments in subsidiaries, as financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) 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.

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

(l) Investments in securities *(cont'd)*

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 for all financial assets not carried at fair value through profit or loss. Investments 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. Realised and unrealised 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 in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of 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 are included in the income statement as gains or losses from securities investment. 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 in determining whether 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. PRINCIPAL 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 *(see Note 2(g))*, 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 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 effective interest rate. The amount of the provision is recognised in the income statement.

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

(o) 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 are likely 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 revenues and costs to be recognised in a given period, and 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.

(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.

(q) Share capital

Ordinary shares are classified as equity.

(r) 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.

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

(s) 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 leaves are not recognised until the time of leave.

(ii) Pension obligations

Group companies participate in various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. 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 scheme 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.

(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.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

(u) 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.

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.

(v) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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.

(w) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. FINANCIAL RISK FACTORS AND MANAGEMENT

The Group is exposed to foreign exchange, credit, liquidity and interest rate risks arising in its ordinary course of business. These risks are managed by the Group's financial management polices 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 the 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 committed credit facilities. Management aims to maintain flexibility in funding by keeping committed 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. Considering all the Group's borrowings are short-term, repayable within one year, and the interest rate risk is not significant, the Group has not used any interest rate swaps to hedge its exposure.

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

CB Richard Ellis Limited were engaged to carry out an independent valuation of the Group's investment property portfolio as at 31 December 2005. This valuation was carried out in accordance with the 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". The values of the Group's investment properties were derived by making reference to comparable sales evidences as available in the markets.

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 in future years as an adjustment to the amounts recorded to date.

(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. TURNOVER AND 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. In order to better align with the Group's business development, the grouping of different businesses under each business segment has been changed with prior year segment information reclassified for comparative purposes. As at 31 December 2005, the Group has categorised its businesses into the following segments:

Real estate development:	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.

Turnover during the year comprised the following:

	2005	2004
	HK$'000	*HK$'000*
Revenue from provision of construction project management services	**14,995**	7,609
Revenue from specialised construction contracts	**144,075**	15,447
Gross rental and management fee income from investment properties	**12,078**	10,620
Sales of lubricant oil and chemical products	**59,781**	52,480
Dividend income from securities investment	**393**	449
	231,322	86,605

5. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – business segments *(cont'd)*

Segment revenue and result

	Real estate development		Specialised construction		Property leasing		Manufacturing and trading		Securities investment and trading		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue												
Sales to external customers	**14,995**	7,609	**144,075**	15,447	**12,078**	10,620	**59,781**	52,480	**393**	449	**231,322**	86,605
Result												
Segment result	**12,629**	(13,374)	**8,110**	(7,338)	**24,832**	31,259	**2,726**	835	**616**	708	**48,913**	12,090
Gain on deconsolidation of subsidiaries											**–**	78,707
Write-back of provision for a bank guarantee											**–**	10,148
Unallocated costs											**(23,823)**	(13,369)
Operating profit											**25,090**	87,576
Finance costs											**(583)**	(1,385)
Income tax											**3,642**	(1,082)
Profit for the year											**28,149**	85,109

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

5. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – business segments *(cont'd)*

Segment assets and liabilities

	Real estate development 2005 HK$'000	Real estate development 2004 HK$'000	Specialised construction 2005 HK$'000	Specialised construction 2004 HK$'000	Property leasing 2005 HK$'000	Property leasing 2004 HK$'000	Manufacturing and trading 2005 HK$'000	Manufacturing and trading 2004 HK$'000	Securities investment and trading 2005 HK$'000	Securities investment and trading 2004 HK$'000	Total 2005 HK$'000	Total 2004 HK$'000
Assets												
Segment assets	350,839	253,817	128,687	74,969	249,954	236,058	23,855	22,722	32,127	31,177	785,462	618,743
Unallocated corporate assets											52,973	116,710
Total assets											838,435	735,453
Liabilities												
Segment liabilities	43,640	35,724	88,530	49,954	4,890	5,017	5,595	5,106	–	–	142,655	95,801
Unallocated corporate liabilities											95,746	78,592
Total liabilities											238,401	174,393

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.

5. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – business segments *(cont'd)*

Other segment information

	Real estate development		Specialised construction		Property leasing		Manufacturing and trading		Securities investment and trading	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital expenditure	**537**	177	**1,985**	20	**737**	29	**548**	916	**–**	–
Depreciation	**238**	221	**467**	155	**117**	73	**942**	1,728	**–**	1
Amortisation of land lease premium	**–**	–	**–**	113	**–**	–	**–**	–	**–**	–
Revaluation gain on investment properties	**–**	–	**–**	–	**15,196**	23,633	**–**	–	**–**	–
Provision for properties under development	**–**	25,000	**–**	–	**–**	–	**–**	–	**–**	–
Impairment loss recognised in the income statement	**–**	–	**–**	88	**–**	–	**–**	1,798	**–**	–
Other non-cash expenses/(income)	**–**	–	**–**	997	**–**	567	**(590)**	386	**(289)**	(347)

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

(b) Secondary reporting format – geographical segments

The Group's business segments 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, 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.

5. TURNOVER AND SEGMENT INFORMATION *(cont'd)*

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

	Hong Kong and Macau		The PRC		Other countries		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
External sales	**24,549**	16,483	**206,378**	69,765	**395**	357	**231,322**	86,605
Segment assets	**297,031**	291,152	**488,431**	327,578	**–**	13	**785,462**	618,743
Capital expenditure	**1,118**	2,645	**2,875**	961	**–**	–	**3,993**	3,606

6. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Interest income from bank deposits	**2,358**	2,276
Interest income from loans to a deconsolidated subsidiary	**–**	107
Unrealised gain on financial assets at fair value through profit or loss/trading securities	**289**	347
	2,647	2,730
Investment income (excluding dividend income)		
Gain on disposal of property, plant and equipment	**6,215**	294
Others	**1,455**	–
	10,317	3,024

The investment income (including dividend income) from listed and unlisted investments for the year ended 31 December 2005 were HK$682,000 (2004: HK$796,000) and HK$2,358,000 (2004: HK$2,383,000) respectively.

7. OPERATING PROFIT

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

	2005	2004
	HK$'000	*HK$'000*
Gross rental and management fee income from investment properties	**(12,078)**	(10,620)
Less: outgoings	**2,150**	2,185
	(9,928)	(8,435)
Depreciation	**2,929**	3,220
Less: depreciation capitalised into properties under development	**(193)**	(204)
	2,736	3,016
Amortisation of land lease premium	**1,822**	9,873
Less: amortisation capitalised into properties under development	**(1,822)**	(9,760)
	–	113
Operating lease charges – minimum lease payment in respect of land and buildings	**4,441**	3,894
Less: amount capitalised into properties under development	**(324)**	(260)
	4,117	3,634
Cost of inventories sold	**33,586**	27,245
Auditors' remuneration	**1,620**	1,660
Net foreign exchange gain	**(1,533)**	(1,129)
Impairment loss of other assets	**1,312**	–
Employee benefit expense *(Note 8)*	**34,562**	35,233
Other operating expenses arising from investment properties that did not generate rental income	**70**	745
Provision/(write-back of provision) for inventory obsolescence	**398**	(636)
Write-back of provision for impairment of receivables (a)	**(5,300)**	(9,295)

(a) An amount of approximately HK$1,585,000 (2004: HK$3,603,000), 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 impairment of receivables. The said amount was received during the year from the liquidators of CNMG as interim dividends to the unsecured creditors of CNMG.

8. EMPLOYEE BENEFIT EXPENSE

	2005	2004
	HK$'000	*HK$'000*
Wages and salaries	**33,950**	34,248
Provision for unutilised annual leave	**41**	20
Write-back of provision for long service payment	**–**	(86)
Pension costs – defined contribution plans *(Note 29)*	**571**	1,051
	34,562	35,233

(a) Directors' emoluments

The remuneration of each director of the Company ("**Director**", collectively "**Directors**") 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	–	–	–	–	–
Mr. Wang Xingdong	–	2,136	–	–	2,136
Mr. Yan Xichuan	–	1,300	–	60	1,360
Mr. Qian Wenchao	–	–	–	–	–
Ms. He Xiaoli	–	1,040	15	–	1,055
Mr. Lam Chun, Daniel	300	–	–	–	300
Mr. Selwyn Mar	310	–	–	–	310
Ms. Tam Wai Chu, Maria	300	–	–	–	300
	910	4,476	15	60	5,461

8. EMPLOYEE BENEFIT EXPENSE *(cont'd)*

(a) Directors' emoluments *(cont'd)*

The remuneration of each Director for the year ended 31 December 2004 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	–	–	–	–	–
Mr. Wang Xingdong	–	2,136	82	–	2,218
Mr. Yan Xichuan	–	1,300	50	60	1,410
Mr. Qian Wenchao	–	–	–	–	–
Ms. He Xiaoli	–	1,040	46	–	1,086
Mr. Lam Chun, Daniel	300	–	–	–	300
Mr. Selwyn Mar	310	–	–	–	310
Ms. Tam Wai Chu, Maria	300	–	–	–	300
	910	4,476	178	60	5,624

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 (2004: Nil) and no Directors have waived their emoluments in respect of their services to the Group for the year (2004: Nil).

(b) Five highest-paid individuals

The five highest-paid individuals in the Group for the year ended 31 December 2005 included three (2004: three) Executive Directors whose emoluments are disclosed in (a) above. Details of the emoluments of the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,557**	2,224
Bonuses	**149**	35
Employer's contributions to pension scheme	**219**	198
	2,925	2,457

8. EMPLOYEE BENEFIT EXPENSE *(cont'd)*

(b) Five highest-paid individuals *(cont'd)*

The emoluments fell within the following bands:

	2005	2004
Nil to HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**–**	–
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 (2004: Nil).

9. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Bank loans and overdrafts		
Wholly repayable within five years	**2,000**	2,773
Other loans		
Wholly repayable within five years	**4,837**	316
Finance leases	**–**	6
	6,837	3,095
Less: borrowing costs capitalised into properties under development (a)	**(6,254)**	(1,710)
	583	1,385

(a) Borrowing costs were capitalised at a rate ranging from 5.58% to 5.74% (2004: 5.31% to 5.58%) per annum.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profit for the year (2004: 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.

	2005	2004
	HK$'000	*HK$'000*
Current tax – Hong Kong		
Over-provision in respect of prior years	**(3,675)**	–
Current tax – Overseas		
Provision for the year	**653**	977
Over-provision in respect of prior years	**(620)**	–
	33	977
Deferred tax		
Origination of temporary differences	**–**	105
	(3,642)	1,082

10. INCOME TAX *(cont'd)*

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 companies as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before tax	**24,507**	86,191
Tax calculated at domestic tax rates applicable to profits in the respective countries	**4,351**	15,841
Over-provision of income tax in respect of prior years	**(4,295)**	–
Income not subject to tax	**(5,367)**	(22,587)
Expenses not deductible for tax purposes	**2,898**	7,322
Utilisation of previously unrecognised tax losses	**(1,229)**	–
Unrecognised tax losses	**–**	506
Income tax (credit)/charges	**(3,642)**	1,082

The weighted average applicable tax rate was 17.8% (2004: 18.4%). The decrease 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$1,345,000 (2004: HK$21,278,000) 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$28,149,000 (2004: HK$85,109,000) by the weighted average number of 772,181,783 ordinary shares (2004: 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 2005 (2004: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

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

	Group					
	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004						
Cost	4,574	9,334	10,956	11,311	5,856	42,031
Accumulated depreciation and impairment	(1,604)	(8,108)	(8,530)	(9,788)	(4,782)	(32,812)
Net book amount	2,970	1,226	2,426	1,523	1,074	9,219
Year ended 31 December 2004						
Opening net book amount	2,970	1,226	2,426	1,523	1,074	9,219
Exchange differences	–	–	–	3	5	8
Additions	–	2,273	157	637	539	3,606
Transfer from investment properties	253	–	–	–	–	253
Transfer between categories	–	–	(227)	227	–	–
Acquisition of a subsidiary	–	–	–	88	–	88
Write-back of provision/ (provision) for impairment loss	493	–	–	(88)	–	405
Disposals	–	–	(61)	(73)	(52)	(186)
Depreciation	(62)	(1,533)	(510)	(506)	(609)	(3,220)
Closing net book amount	3,654	1,966	1,785	1,811	957	10,173

14. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

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

	Group					
	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004						
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)*

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

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Long-term leases (over 50 years)	**8,753**	1,873
In the PRC, held on:		
Long-term leases (over 50 years)	**–**	1,781
	8,753	3,654

Leasehold land and buildings with carrying amounts of approximately HK$8,753,000 (2004: Nil) have been pledged as securities for bank borrowings *(Note 28(a))*.

15. INVESTMENT PROPERTIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January	**229,890**	206,510
Transfer to property, plant and equipment	**(5,187)**	(253)
Revaluation gain	**15,196**	23,633
Balance at 31 December	**239,899**	229,890

The investment properties were revalued at 31 December 2005 by CB Richard Ellis 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:

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong, held on:		
Long-term leases (over 50 years)	**236,299**	228,100
In the PRC, held on:		
Long-term leases (over 50 years)	**3,600**	1,790

Investment properties with carrying amounts of approximately HK$236,299,000 (2004: HK$215,000,000) have been pledged as securities for bank borrowings *(Note 28(a))*.

16. GOODWILL

(a) Goodwill and negative goodwill arising from acquisitions are as follows:

		Group	
	Goodwill	**Negative Goodwill**	**Net**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004			
Cost and net book amount	–	–	–
Year ended 31 December 2004			
Opening net book amount	–	–	–
Additions	20,275	(12,738)	7,537
Amortisation	(1,317)	5,271	3,954
Closing net book amount	18,958	(7,467)	11,491
At 31 December 2004			
Cost	20,275	(12,738)	7,537
Accumulated amortisation and impairment	(1,317)	5,271	3,954
Net book amount	18,958	(7,467)	11,491
Year ended 31 December 2005			
Opening net book amount, as previously reported	18,958	(7,467)	11,491
Opening adjustment on derecognision of negative goodwill *(see Note 2(a))*	–	7,467	7,467
Opening net book amount, as restated	18,958	–	18,958
Exchange differences	425	–	425
Closing net book amount	19,383	–	19,383
At 31 December 2005			
Cost	**19,383**	**–**	**19,383**
Accumulated amortisation and impairment	**–**	**–**	**–**
Net book amount	**19,383**	**–**	**19,383**

16. GOODWILL *(cont'd)*

(b) Impairment tests for goodwill

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

	2005	2004
	HK$'000	*HK$'000*
Specialised construction	**19,383**	18,958

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period.

The sale growth rate and discount rate used for value-in-use calculations are 5.00% and 5.58% respectively.

Management determined the sale growth rate based on past performance and its expectation for market development. The discount rate used is the cost of borrowings of the CGU.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted share investments, at cost	**695,296**	695,296
Less: provision for impairment in value	**(695,296)**	(695,296)
	–	–
Loans to subsidiaries (a)	**51,423**	51,928
Less: provision for loans to subsidiaries	**(47,800)**	(47,800)
	3,623	4,128
Amounts due from subsidiaries (b)	**1,032,171**	1,003,855
Less: provision for amounts due from subsidiaries	**(488,212)**	(511,674)
	543,959	492,181
	547,582	496,309

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

(a) Included in the loans to subsidiaries are loans to subsidiaries of approximately HK$47,800,000 (2004: 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.

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

(c) The following is a list of the principal subsidiaries at 31 December 2005:

			Percentage of equity		
Name of subsidiary	**Place of incorporation/ operations**	**Particulars of issued/ registered and paid up capital** *(i)*	**Directly held by the Company**	**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 *(ii)*	PRC	RMB12,062,711	–	100	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

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

(c) The following is a list of the principal subsidiaries at 31 December 2005: *(cont'd)*

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/ registered and paid up capital *(i)*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
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
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

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

(c) The following is a list of the principal subsidiaries at 31 December 2005: *(cont'd)*

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/ registered and paid up capital *(i)*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
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
ONFEM Investments Limited	British Virgin Islands/ Hong Kong	100 shares of US$10 each	100	–	Investment holding
Oriental Dragon Construction Limited	Hong Kong/ Hong Kong and PRC	10,000 shares of HK$1 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 and aluminium 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

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

(c) The following is a list of the principal subsidiaries at 31 December 2005: *(cont'd)*

Name of subsidiary	Place of incorporation/ operations	Particulars of issued/ registered and paid up capital *(i)*	Percentage of equity Directly held by the Company	Percentage of equity Indirectly held by the Company	Principal activities
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 *(iv)*	PRC	RMB44,000,000	–	100	Property development

(i) The class of shares held is ordinary unless otherwise stated. None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2005.

(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) Shanghai Jin Qiao Condo Decoration Engineering Company Limited, 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.

(iv) 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.

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

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS/NON-TRADING SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January	**28,440**	28,440
Revaluation surplus transferred to equity *(Note 25)*	**900**	–
Balance at 31 December	**29,340**	28,440

Available-for-sale financial assets/non-trading securities include the following:

	2005	2004
	HK$'000	*HK$'000*
Equity securities:		
Listed in Hong Kong, at fair value	**29,340**	28,440
Unlisted, at cost	**243,600**	243,600
Less: provision for impairment in value	**(243,600)**	(243,600)
	–	–
	29,340	28,440

19. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Manufacturing and trading stocks		
Raw materials	5,129	5,603
Work in progress	–	196
Finished goods	3,723	3,542
	8,852	9,341
Less: provision for inventory obsolescence	(2,759)	(2,361)
Manufacturing and trading stocks, net	6,093	6,980
Properties under development – located in the PRC	244,979	231,787
Less: provision for net realisable value	(36,276)	(36,276)
Properties under development, net (a)	208,703	195,511
	214,796	202,491

(a) Properties under development

	2005 HK$'000	2004 HK$'000
Land use right	77,342	79,164
Construction in progress	131,361	116,347
	208,703	195,511

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and contract receivables, net (a)	**83,170**	31,672	**–**	–
Retention receivables *(Note 21)*	**7,039**	15,023	**–**	–
Deposits	**52,242**	25,374	**650**	652
Prepayments	**876**	910	**324**	387
Others	**18,655**	10,511	**28**	13
	161,982	83,490	**1,002**	1,052

(a) Trade and contract receivables, net

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**40,924**	9,194
31 – 60 days	**16,710**	5,340
61 – 90 days	**6,898**	3,247
Over 90 days	**34,027**	33,148
	98,559	50,929
Less: provision for impairment of receivables	**(15,389)**	(19,257)
	83,170	31,672

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.

20. TRADE AND OTHER RECEIVABLES *(cont'd)*

(a) Trade and contract receivables, net *(cont'd)*

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollar	**13,135**	11,591
RMB	**40,253**	9,952
United States dollar	**29,782**	10,129
	83,170	31,672

21. CONSTRUCTION CONTRACTS IN PROGRESS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contract costs incurred plus attributable profits less foreseeable losses to date	**112,699**	20,773
Less: progress billings to date	**(111,955)**	(19,899)
	744	874
Included in current assets/(liabilities) under the following captions:		
Gross amounts due from customers for contract work	**744**	1,684
Gross amounts due to customers for contract work	**–**	(810)
	744	874

As at 31 December 2005, 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 20 amounted to approximately HK$4,539,000 (2004: HK$879,000) and HK$7,039,000 (2004: HK$15,023,000), respectively.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/TRADING SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
At fair value:		
Equity securities listed in Hong Kong	**2,778**	2,489

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks	**143,299**	120,703	**49,976**	75,457
Cash on hand	**48**	136	**–**	–
Cash and bank deposits (a)	**143,347**	120,839	**49,976**	75,457
Bank overdraft *(Note 28)*	**(1,103)**	(1,158)	**–**	–
	142,244	119,681	**49,976**	75,457

23. CASH AND CASH EQUIVALENTS *(cont'd)*

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollar	**25,900**	67,459	**5,569**	39,511
RMB	**72,970**	17,355	**–**	–
United States dollar	**44,433**	36,025	**44,407**	35,946
Other currencies	**44**	–	**–**	–
	143,347	120,839	**49,976**	75,457

24. SHARE CAPITAL

	2005		2004	
	No. of Shares	**Amount**	No. of Shares	Amount
	('000)	***HK$'000***	*('000)*	*HK$'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

24. 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.

(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. As at 31 December 2005, 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	**12,000**
Employees	17 March 2004 to 26 April 2007	0.83	**8,100**
			20,100

(ii) Movements in the number of share options outstanding of the above share options granted are as follows:

	2005 Number of share options *('000)*	2004 Number of share options *('000)*
Balance at 1 January	**20,900**	–
Granted	**–**	21,100
Lapsed	**(800)**	(200)
Balance at 31 December	**20,100**	20,900

25. RESERVES

(a) Group

	Share premium HK$'000	Contributed surplus (c) HK$'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 2004	409,738	601,415	769	11,520	(1,601)	(624,352)	397,489
Currency translation adjustments	–	–	–	–	2,247	–	2,247
Release of reserve upon liquidation of a subsidiary	–	(1,003)	–	–	–	–	(1,003)
Profit for the year, as restated	–	–	–	–	–	85,109	85,109
Balance at 31 December 2004	409,738	600,412	769	11,520	646	(539,243)	483,842
Balance at 1 January 2005, as per above	**409,738**	**600,412**	**769**	**11,520**	**646**	**(539,243)**	**483,842**
Opening adjustment on derecognition of negative goodwill on the adoption of HKFRS 3 *(see Note 2(a))*	**–**	**–**	**–**	**–**	**–**	**7,467**	**7,467**
Balance at 1 January 2005, as restated	**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**

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 2004	409,738	575,220	769	(503,323)	482,404
Profit for the year	–	–	–	21,278	21,278
Balance at 31 December 2004	**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**

(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 2005, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK$95,289,000 (2004: HK$93,944,000).

26. DEFERRED TAX

The movement on the deferred tax assets is as follows:

	Group	
	2005	2004
	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 during the year is as follows:

	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January	**105**	–
Recognised in the income statement	**–**	105
Balance at 31 December	**105**	105

Deferred income 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. As at 31 December 2005, the Group had unrecognised tax losses in Hong Kong of approximately HK$215,180,000 (2004: HK$260,816,000) 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$24,278,000 as at 31 December 2005 (2004: HK$26,588,000), and these tax losses will expire within 5 years.

27. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade, bills and contract payables (a)	**99,794**	75,301	**–**	–
Retention payables	**10,453**	6,436	**–**	–
Accruals and other payables	**38,459**	24,804	**3,078**	2,730
Provisions (b)	**–**	–	**18,237**	–
Temporary receipts	**7,699**	103	**–**	–
Rental deposits received	**1,195**	1,922	**–**	–
	157,600	108,566	**21,315**	2,730

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**25,617**	14,024
31 – 60 days	**10,161**	11,504
61 – 90 days	**3,821**	1,151
Over 90 days	**60,195**	48,622
	99,794	75,301

The carrying amounts of trade, bills and contract payables are denominated in the following currencies:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollar	**2,599**	6,357
RMB	**96,257**	68,249
US dollar	**568**	509
Other currencies	**370**	186
	99,794	75,301

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

(b) Provisions

	Company	
	2005	2004
	HK$'000	*HK$'000*
Balance at 1 January	**–**	50,078
Provisions for the year	**18,237**	–
Payments	**–**	(28,459)
Unused amounts reversed	**–**	(21,619)
Balance at 31 December	**18,237**	–

The amount represents the provision made for corporate guarantees in respect of banking facilities extended to subsidiaries.

28. SHORT-TERM BORROWINGS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Bank overdrafts, secured *(Note 23)*	**1,103**	1,158
Bank term-loans, secured	**13,936**	35,247
Bank borrowings, secured (a)	**15,039**	36,405
Loan from a former minority investor	**–**	6,726
Loan from a fellow subsidiary, secured *(Note 33)*	**48,055**	–
	63,094	43,131

28. SHORT-TERM BORROWINGS *(cont'd)*

(a) Banking facilities

The Group's aggregate banking facilities, including bank borrowings, as at 31 December 2005 were approximately HK$194,685,000 (2004: HK$50,262,000), of which the unutilised facilities as at the same date amounted to approximately HK$176,011,000 (2004: HK$13,295,000). Securities for the facilities include:

(i) fixed deposits of the Group of approximately HK$5,000,000 (2004: HK$38,100,000), including that of the Company of approximately HK$5,000,000 (2004: HK$9,500,000);

(ii) investment properties and leasehold land and buildings with carrying amounts of approximately HK$236,299,000 (2004: HK$215,000,000) and HK$8,753,000 (2004: Nil) respectively; and

(iii) corporate guarantees given by the Company.

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

	2005		2004	
	HK$	***RMB***	*HK$*	*RMB*
Bank overdrafts, secured	**7.75%**	**–**	5.00%	–
Bank term-loans, secured	**–**	**5.58%**	–	5.51%
Loan from a fellow subsidiary, secured	**–**	**5.74%**	–	–

(c) The carrying amounts of short-term borrowings approximate their fair values and are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Hong Kong dollar	**1,103**	1,158
RMB	**61,991**	41,973
	63,094	43,131

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 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 and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Forfeited contributions totalling HK$57,000 (2004: HK$61,000) were utilised during the year and there were no unutilised forfeited contributions available as at 31 December 2005.

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. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	2004 HK$'000
Profit before tax	24,507	86,191
Interest income	(2,358)	(2,383)
Interest expense	583	1,385
Depreciation	2,929	3,220
Amortisation of land lease premium	–	113
Amortisation of goodwill and negative goodwill	–	(3,954)
Revaluation gain on investment properties	(15,196)	(23,633)
Impairment loss of leasehold land and land use rights	–	1,798
Write-back of provision for impairment loss of property, plant and equipment	–	(405)
Gain on disposal of property, plant and equipment	(6,215)	(294)
Gain on deconsolidation of subsidiaries	–	(78,707)
Impairment loss of other assets	1,312	–
Provision for properties under development	–	25,000
Provision/(write-back of provision) for inventory obsolescence	398	(636)
Write-back of provision for impairment of receivables	(5,300)	(9,295)
Unrealised gain on revaluation of financial assets at fair value through profit or loss/trading securities	(289)	(347)
Write-back of provision for a bank guarantee	–	(10,148)
Dividend income from securities investment	(393)	(449)
Wavier of debt by a former minority investor	–	(3,051)
Operating loss before working capital changes	(22)	(15,595)
Increase in retention receivables, non-current portion	(3,660)	(272)
Decrease in other assets	55	22
Increase in inventories	(6,449)	(6,670)
Decrease in amount due from a fellow subsidiary	–	1
Decrease in amount due from a minority investor	–	37
Increase in trade and other receivables	(73,192)	(4,044)
Decrease in gross amounts due from/to customers for contract work, net	130	2,722
Decrease in pledged deposits	33,100	15,110
Decrease in amounts due to minority investors	–	(690)
Increase/(decrease) in trade and other payables	49,034	(22,304)
Increase in other liabilities	286	649
Exchange adjustments	1,900	2,480
Cash generated from/(used in) operations	1,182	(28,554)

31. CONTINGENT LIABILITIES

The Company had executed:

(a) corporate guarantees to various banks in respect of banking facilities extended to subsidiaries amounting to approximately HK$194,400,000 (2004: HK$21,600,000). As at 31 December 2005, the facilities utilised amounted to approximately HK$18,528,000 (2004: HK$1,452,000); and

(b) a letter of guarantee amounting to approximately HK$8,993,000 (2004: Nil) to an employer of a specialised construction contract undertaken by a subsidiary in respect of an advanced payment made by the employer to the subsidiary on such contract.

32. COMMITMENTS

(a) Capital commitments of the Group outstanding at 31 December 2005 were as follows:

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for in respect of property development	**275,890**	29,508

At 31 December 2005, the Company did not have any outstanding capital commitments (2004: Nil).

(b) At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**4,475**	3,202
Later than one year and not later than five years	**5,429**	3,202
After five years	**2,550**	3,216
	12,454	9,620

At 31 December 2005, the Company did not have any operating lease commitments (2004: 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 2005, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**11,226**	9,382
Later than one year and not later than five years	**5,828**	7,919
	17,054	17,301

At 31 December 2005, the Company did not have any future lease receipts (2004: 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

	2005	2004
	HK$'000	*HK$'000*
Construction project management service revenue from a fellow subsidiary *(Note (i))*	**15,344**	8,009
Specialised construction revenue from related companies *(Note (ii))*	**30,206**	9,682
Rental expenses and license fees paid to fellow subsidiaries *(Note (iii))*	**1,354**	968
Loan interest costs to a fellow subsidiary *(Note (iv))*	**1,037**	–
Advanced payment to a related company for a specialised construction contract *(Note (ii))*	**2,632**	–
Proceed from disposal of factory to a local government in the PRC *(Note (ii))*	**10,133**	–

(b) Balances with related parties

	2005	2004
Contract receivable from a fellow subsidiary for construction project management services *(Note (i))*	**2,562**	–
Progress payment from a fellow subsidiary for construction project management services *(Note (i))*	**–**	810
Contract and other receivables from related companies for specialised construction contracts *(Note (ii))*	**15,901**	2,641
Contract payable to a related company for a real estate development project *(Note (ii))*	**34,528**	33,768
Contract and retention payables to a related company for a specialised construction contract *(Note (ii))*	**22,540**	5,138
Short-term loan from a fellow subsidiary *(Note (iv))*	**48,055**	–
Loan interest payable to a fellow subsidiary *(Note (iv))*	**84**	–

(c) Key management compensation

	2005	2004
Salaries and short-term employee benefits	**5,401**	5,564
Pension costs – defined contribution plans	**60**	60
	5,461	5,624

33. RELATED PARTY TRANSACTIONS *(cont'd)*

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 ("**Listing Rules**").

(ii) As China Minmetals is a state-owned enterprise, the government of the PRC ("**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 stated-controlled enterprises.

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

(iv) The short-term loan from a fellow subsidiary made on 24 August 2005, for working capital purposes to a subsidiary of the Company for a term of 6 months bearing interest at the rate of 5.74% per annum, is secured by a corporate guarantee from Minmetals HK. The transaction constituted a connected transaction as defined in the Listing Rules.

34. EVENTS AFTER THE BALANCE SHEET DATE

On 11 April 2006, a shareholders' agreement was entered into amongst Karman Industries Limited ("**KIL**"), Stillpower Limited ("**SL**") (both are indirect wholly owned subsidiaries of the Company), World Ocean Development Limited ("**WODL**") and Oriental Dragon Construction Limited ("**ODCL**"), pursuant to which ODCL will become a joint venture company, owned as to 71% by the Company through KIL and SL and 29% by WODL, upon completion of the share transfer. ODCL, through Dragon Construction (Nanjing) Properties Company Limited ("**Project Company**"), its wholly owned subsidiary established in the PRC on 5 January 2006, undertakes a residential property development project in Nanjing.

It is estimated that before financing from financial institutions is available, the Project Company would require an initial financing of approximately RMB180,000,000 (approximately HK$173,077,000) to meet the full payment of the relevant land premium and other preliminary expenses, of which approximately RMB172,237,000 (approximately HK$165,613,000) will be provided by the Group as loans to ODCL, while WODL will provide loans of approximately RMB7,763,000 (approximately HK$7,464,000) to ODCL and, together with its associates, pledge properties with acceptable values of approximately RMB44,437,000 (approximately HK$42,728,000) as securities to the Group in exchange for its provision of WODL's share of financing to ODCL.

Further details of the above transaction have been set out in the Company's announcement dated 11 April 2006.

1. MAJOR PROPERTIES HELD FOR INVESTMENT

Location	Existing use	Lease term
ONFEM Tower, 29 Wyndham Street, Central, Hong Kong Inland Lot No. 1005	Commercial	Long
Flat A on Level 8 of Yi Cui Court Crest Villa, Zhang Yang Road Pu Dong, Shanghai, the PRC	Residential	Long
Flat B on Level 8 of Yi Cui Court, Crest Villa, Zhang Yang Road, Pu Dong, Shanghai, the PRC	Residential	Long
Flat D on 19th Floor, Tai Yuen Court, No. 38 Tai Yuen Street, Wanchai, Hong Kong	Residential	Long
Unit 6 on 8th Floor of Block 2, Heng Fa Chuen, No. 100 Shing Tai Road, Hong Kong	Residential	Long
Unit 2603 on 26th Floor, Block Q, Kornhill, Nos. 6-8 Hong On Street, Quarry Bay, Hong Kong	Residential	Long

2. MAJOR PROPERTY UNDER DEVELOPMENT

Location	Stage of completion	Expected completion date	Intended use	Site area/gross floor area (square metre)	The Group's interest
At the junction of Haijing Road and Haizhou Road, Jida, Xiangzhou District, Zhuhai, Guangdong Province, the PRC	Substructure completed	December 2007	Residential and commercial	16,454/87,916	100%

Five Year Financial Summary

	2005 HK$'000	2004 HK$'000 (restated)	2003 HK$'000 (restated)	2002 HK$'000 (restated)	2001 HK$'000 (restated)
Results					
Turnover	**231,322**	86,605	160,941	332,168	315,580
Operating profit/(loss)	**25,090**	87,576	(32,334)	(128,522)	(374,072)
Finance costs	**(583)**	(1,385)	(4,860)	(7,703)	(8,731)
Profit/(loss) before tax	**24,507**	86,191	(37,194)	(136,225)	(382,803)
Income tax	**3,642**	(1,082)	(95)	(363)	(13,944)
Profit/(loss) for the year	**28,149**	85,109	(37,289)	(136,588)	(396,747)
Profit/(loss) attributable to:					
Equity holders of the Company	**28,149**	85,109	(35,739)	(136,854)	(373,734)
Minority interests	**–**	–	(1,550)	266	(23,013)
Assets and liabilities					
Non-current assets	**309,788**	286,360	252,196	259,105	315,494
Current assets	**528,647**	449,093	524,806	680,859	871,162
Total assets	**838,435**	735,453	777,002	939,964	1,186,656
Capital and reserves attributable to equity holders of the Company	**600,034**	561,060	474,707	499,058	636,119
Minority interest	**–**	–	25,033	26,491	26,187
Total equity	**600,034**	561,060	499,740	525,549	662,306
Non-current liabilities	**7,325**	7,039	12,154	13,805	15,787
Current liabilities	**231,076**	167,354	265,108	400,610	508,563
Total liabilities	**238,401**	174,393	277,262	414,415	524,350
Total equity and liabilities	**838,435**	735,453	777,002	939,964	1,186,656