



東方有色集團有限公司*
ONFEM HOLDINGS LIMITED

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

ANNUAL REPORT 2006



* For identification purpose only

A member of Minmetals Group

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CORPORATE INFORMATION

CHAIRMAN & NON-EXECUTIVE DIRECTOR

ZHOU Zhongshu

DEPUTY CHAIRMAN

QIAN Wenchao

MANAGING DIRECTOR

WANG Xingdong

DEPUTY MANAGING DIRECTORS

YAN Xichuan

YIN Liang

EXECUTIVE DIRECTOR

HE Xiaoli

INDEPENDENT NON-EXECUTIVE DIRECTORS

TAM Wai Chu, Maria

LAM Chun, Daniel

Selwyn MAR

QUALIFIED ACCOUNTANT

YUEN Wai Man, Shirine

COMPANY SECRETARY

CHUNG Wing Yee, Zoe

AUDITORS

PricewaterhouseCoopers
22nd Floor, Prince's Building,
Central, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation

BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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17th Floor, Hopewell Centre,
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REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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WEBSITE

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CHAIRMAN'S STATEMENT



I am pleased to present to you the annual report of the Company and its subsidiaries for the financial year ended 31 December 2006.

Over the past three years, since China Minmetals became the controlling shareholder of the Company, we have set about building the Group into a real estate developer in the PRC whilst at the same time restructuring and integrating the non-real estate development businesses so as to improve their performance. China Minmetals is committed to the Group in building its core business in real estate development and specialised construction. A further element of our strategic development has been to develop the Group so that it may realise maximum benefits from its position as a Hong Kong-listed subsidiary of China Minmetals, one of the major conglomerates in the PRC.

The year 2006 marked a major milestone in the development of the Group, as it was the concluding year of the three-year building phase of our real estate development and specialised construction businesses. Starting in 2007, the Group will enter into a new phase where we expect to see our real estate development business begin to make positive contributions to cash flow and an improving curtain wall business.

REAL ESTATE DEVELOPMENT BUSINESS – THE MAIN DRIVER IN OUR NEXT PHASE OF DEVELOPMENT

During the year under review, our real estate development project portfolio consisted of two projects in the PRC namely, The Grand Panorama Project (formerly known as Haitian Garden Project), a residential development project in Zhuhai, and the Laguna Bay Project, a residential development project in Jiangning District, Nanjing.

The Grand Panorama Project saw pleasing progress during the year, with construction works completed to the extent that the units in the project occupying a gross floor area of approximately 89,000 sqm are permitted now to be offered for pre-sale. Based on an assessment of the current realisable value of this project, we have in 2006 made a full write-back of the provision in the Group's financial statements of HK\$36.3 million that was made in 2003 and 2004. As a result, the asset value attributable to our real estate development business has been enhanced. This increase in asset value is a welcome indication that our dedication and devoted efforts in revitalising The Grand Panorama Project is continuing to pay off. It has generated substantial cash inflow in 2007. Upon handover in 2008, we expect there will be satisfactory income recognised.

The Laguna Bay Project, which comprises a gross floor area of approximately 277,700 sqm, will be developed in three development phases. The pre-sale of units of the first phase, which has a gross floor area of approximately 68,300 sqm, is planned to commence in the last quarter of 2007. We expect that the Laguna Bay Project would become one of the important revenue and cash flow contributors to the Group for several years starting in 2008.

In further developing our real estate development business, we will initially focus our efforts and utilise the experience and local knowledge gained from existing projects on two target regions – the second tier cities and municipalities in the central and south-east of the PRC, where we are confident of future macro-economic growth and property market potential. The Group has an achievable development plan in acquiring PRC development land resources, including acquisition of land bank from 2007 onwards. Our existing Laguna Bay Project together with our new land bank to be acquired will maintain the growth momentum of our real estate development business. The Shareholders' value will be further enhanced.

FORWARD STRATEGY

The Group's growth strategy revolves around a main focus on the fast-growing PRC real estate development business. Through active acquisition of land bank as mentioned above, we envisage our real estate development business will grow rapidly in the coming years. Real estate development business and specialised construction business will not only create synergy, our specialised construction business, which has relatively stronger market position in the industry sector, is also expected to play a positive role as a revenue contributor. The Group seeks to expedite the expansion of the real estate development business and specialised construction business via feasible means including merger and acquisition.

Looking ahead and barring unforeseen circumstances, the Board is optimistic that the Group will be able to maintain revenue growth and improve operating margins commencing 2008. To achieve such continued improvements, the Group has adopted the following key business strategies:

1. Continue to leverage on the strengths of China Minmetals, with its strong financial base and extensive business connections especially in the PRC and Hong Kong;
2. Seek to strengthen the Group's capital position to better capitalise on opportunities to expand our real estate development project portfolio;
3. Build up the brand and image of the Group in the real estate development industry in the PRC to enhance value in our real estate development business;
4. Seek to grow our core business through business cooperation, mergers and acquisitions; and
5. Develop further synergies amongst our core business and other specialised construction business.

The Board has proposed to change the name of the Company from “ONFEM Holdings Limited” to “Minmetals Land Limited” and adopt the Chinese name of “五礦建設有限公司” for identification purpose. We consider that the new Company name not only helps investors appreciate the existing core business focus of the Group on real estate development and specialised construction and direction of its future business development but also refreshes the corporate image and identity of the Company being a subsidiary of China Minmetals.

OUTLOOK

The 2007 financial year has started well with satisfactory pre-sale results from The Grand Panorama Project. Furthermore, net proceeds of HK\$157.8 million from the disposal of an investment in January 2007 have further strengthened the working capital position of the Group. Going forward, we will closely monitor the impact of the implementation of the land appreciation tax on the property market in the PRC and any further measures that might be implemented by the Central Government to help cool down economic growth. Also, we note that construction costs in the PRC are on a rising trend which may reduce margins of our real estate development business. Notwithstanding these short-term developments, we remain confident in the PRC's long-term economic growth and hence the growth potential of its real estate development market, as well as our ability to continue to acquire suitable and good quality real estate development projects in our target markets.

Moving ahead, we will continue to make every effort to offer our customers the best products and services, enhance the Group's competitive advantages and earnings capability, and bring satisfactory returns to our Shareholders.

APPRECIATION

I would like to express my gratitude to all our Directors, management and staff for their hard work and diligence in the past year. On behalf of the Board, I would like to take this opportunity to thank our customers, business partners and Shareholders for their continuous support. I would also like to extend our warmest welcome to Mr. Yin Liang in joining the Board as an Executive Director and a Deputy Managing Director of the Company. Last but not least, the Board wishes to thank Mr. Lin Xizhong, our former Chairman who resigned in February 2006, for his valuable contribution and guidance to the Group in the past years.

Zhou Zhongshu

Chairman

Hong Kong, 12 April 2007

MANAGEMENT DISCUSSION AND ANALYSIS



Consolidated revenue of the Group for the financial year ended 31 December 2006 increased by 31.0% to reach HK\$303.1 million (2005: HK\$231.3 million), primarily due to the continued business growth momentum of specialised construction business.

Including the revaluation gain on investment properties and write-back of provision for properties under development, the consolidated after-tax profit attributable to equity holders of the Company was HK\$105.8 million in 2006 (2005: HK\$28.1 million), up 276.0% from the previous year. Earnings per share rose from 3.65 HK cents in 2005 to 13.71 HK cents in 2006.

The Group is principally engaged in the businesses of real estate development and project management, specialised construction, property leasing, manufacturing and trading, and securities investment and trading.

TOTAL REVENUE BY BUSINESS SEGMENTS

| | Year ended 31 December | | Year-on-year | | change |
|--|------------------------|-------|--------------|-------|----------|
| | 2006 | 2005 | 2006 | 2005 | |
| | HK\$'000 | % | HK\$'000 | % | % |
| Real estate development and project management | 11,283 | 3.7 | 14,995 | 6.5 | -24.8 |
| Specialised construction | 206,727 | 68.2 | 144,075 | 62.3 | +43.5 |
| Property leasing | 14,249 | 4.7 | 12,078 | 5.2 | +18.0 |
| Manufacturing and trading | 64,931 | 21.4 | 59,781 | 25.8 | +8.6 |
| Securities investment and trading | 5,895 | 2.0 | 393 | 0.2 | +1,400.0 |
| Total revenue | 303,085 | 100.0 | 231,322 | 100.0 | |

REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS

This business segment includes two real estate development projects in the PRC namely, The Grand Panorama Project (formerly known as Haitian Garden Project) in Zhuhai and the Laguna Bay Project in Nanjing, and the provision of project management services with respect to the construction works of Guangzhou Tian He Jin Hai Building ("Jin Hai Building") in Guangzhou, the PRC.

During the year under review, The Grand Panorama Project was under construction and the Laguna Bay Project was primarily in the design and planning stage. As a result, the revenue recorded under this segment was entirely attributable to project management activities relating to the construction of Jin Hai Building. In 2006, the Group's service contract with respect to the provision of construction project management services for Jin Hai Building was in its final stage and hence the service fees income recognised by the Group in 2006 were comparatively lower than that in the preceding year as the fee structure was more heavily weighted towards the early stages of the contract period.

In 2006, revenue from this segment was HK\$11.3 million (2005: HK\$15.0 million), a decrease of 24.8% year-on-year. Segment profit increased from HK\$12.6 million in 2005 to HK\$43.8 million in 2006, representing an increase of 247.6%. Excluding the write-back of provision for properties under development, segment profit during the year under review was HK\$7.5 million, representing a decrease of 40.5% compared with HK\$12.6 million in 2005.

The Grand Panorama Project, Zhuhai, Guangdong Province, the PRC

The Grand Panorama Project obtained the permit for superstructure construction in May 2006. At the end of 2006, construction works for this project had progressed to an extent enabling the application of the relevant pre-sale permit to be submitted. In January 2007, the permit was obtained and the pre-sale of the residential units of the project commenced. All



REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS (Cont'd)



units in The Grand Panorama Project are over 90 sqm in size and targeted at high-income investors or owner-occupiers from Hong Kong, Macau and the PRC, in particular from the Pearl River Delta. So far, response to the pre-sale of the project has been satisfactory. Sale of the units in the project is expected to be substantially complete in 2007 and handover of the units to our customers is scheduled in July 2008.

Pre-sale of The Grand Panorama Project has marked the success of our management's continued dedication and efforts in revitalising the project in the past few years. As a result of the satisfactory progress in the project together with improved realisable value of the project, we have in 2006 made a full write-back of the provision in the Group's financial statements of HK\$36.3 million that was made in 2003 and 2004.

Laguna Bay Project, Nanjing, the PRC

Based on the Group's analysis of market conditions and resources allocation plan, the Laguna Bay Project will be developed under three phases, with a substantial portion of the sale proceeds from the earlier phases to be utilised towards the development of subsequent phase(s). The project is positioned for the middle to high-end residential property market in the Nanjing area. During the year under review, the relevant land use right certificates were granted and the design and planning proposal of the project was being reviewed by the Jiangning District local authority. In December 2006, the project's design and planning proposal had been submitted to the Urban Planning Bureau and the design and planning permit had been granted in February 2007. Works on phase 1 of the project started in January 2007 in terms of detailed site investigation works.



The current construction and pre-sale schedules of the Laguna Bay Project are shown below:

| | Approximate gross floor area <small>(Note)</small> | Expected pre-sale commencement date | Expected construction completion date |
|---------|---|--|---|
| | sqm | | |
| Phase 1 | 68,300 | 4Q 2007 | 4Q 2008 |
| Phase 2 | 150,300 | 4Q 2008 | 4Q 2009 |
| Phase 3 | 59,100 | 4Q 2009 | 4Q 2010 |
| Total | 277,700 | | |

Note: Gross floor area excludes primary school gross floor area.

REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS (Cont'd)



Since the administrative status of Jiangning was upgraded from a county to a district in 2000, economic activity in the area had continued to expand at a brisk rate, especially with timely improvements in transport links both within the area and externally. In mid-2006, the Jiangning metro subway system was extended to the Science Park area, close to the location of our Laguna Bay Project. In addition, the Ninghang Expressway, with a toll station in Jiangning District, will be fully in operation in 2007. Given these favourable developments in the infrastructures and the economic activity of the Jiangning District, the Group is confident about the potential of the Laguna Bay Project and its contributions to the Group's revenue and cash flow for several years from 2008 onwards.

Construction Project Management Service

Although construction of the Jin Hai Building project was substantially completed in June 2006, the final account of the construction works could not be completed on schedule primarily due to contractual dispute between the developer and the contractor. The Group will negotiate with the developer to determine a new target completion date for finalisation of the accounts. The Group has recognised RMB36.6 million of project management fee up to 2006.

SPECIALISED CONSTRUCTION BUSINESS

In 2006, the Group operated this business through SJQ which is engaged in the design and installation of curtain walls in the PRC and Enful which is engaged in the manufacture and installation of fire-rated timber doors and fire-proofing plaster projects in the PRC and Hong Kong.

In 2006, specialised construction business reported revenue of HK\$206.7 million (2005: HK\$144.1 million), representing an increase of 43.5% over the previous year. Segment loss was HK\$3.4 million in 2006, compared with a segment profit of HK\$8.1 million in 2005. The loss was mainly a result of the less than satisfactory performance of Enful's business.

Curtain Wall Business

SJQ recorded revenue of HK\$191.4 million in 2006 (2005: HK\$140.1 million), representing a 36.6% increase over 2005. Benefiting from strong economic growth in the PRC and brand recognition, SJQ continued to enjoy improved business growth in 2006. Based in Shanghai, SJQ has extensive operations in 15 provinces and cities in the PRC. Through its experience and track record in the curtain wall industry in the PRC and by leveraging on the advantage of being a subsidiary of China Minmetals, SJQ has built its brand recognition and credibility effectively amongst existing and potential clients. The value of outstanding contracts on hand amounted to approximately HK\$300 million at the end of 2006 (2005: HK\$122 million).



Fujian Province People's Procuratorate



China Construction Luban Prize

SPECIALISED CONSTRUCTION BUSINESS (Cont'd)

In recognising the quality and high standard of work performed by SJQ, the Ministry of Construction and Shanghai Construction Trade Association had respectively granted two prestigious awards namely,



Shanghai White Orchid Award

China Construction Luban Prize (中國建築工程魯班獎) and Shanghai White Orchid Award (上海市建設工程“白玉蘭”獎) for two curtain wall construction projects completed by SJQ in 2006.



Shanghai Mint

By the 21st century, the PRC has become the largest producer and consumer of curtain wall in the world. In the next several years, the size of the curtain wall market in the PRC is expected to maintain at about 120 million sqm per year in terms of new installations and modification. Given prevailing market dynamics, SJQ seeks to enlarge operation scale and modify production facilities in response to market demand via feasible measures including merger and acquisition.

Fire-proofing Door and Plaster Business

During the year under review, the revenue of Enful was HK\$15.3 million (2005: HK\$4.0 million), of which HK\$13.8 million (90.2% of revenue) was derived from the Hong Kong market, with the remaining HK\$1.5 million (9.8% of revenue) from the PRC market. Enful's business volume, especially in the PRC, was not able to cover its fixed operating costs in 2006. Despite the efforts of the Group to revive Enful's business in the past through various measures, the improvement had not been satisfactory. The management had taken actions to minimise further financial losses to the Group.

PROPERTY LEASING BUSINESS

The Group's property leasing business covers mainly the leasing of office and commercial spaces in ONFEM Tower ("ONFEM Tower") located in Central, Hong Kong, and four other residential units in Hong Kong. The Group's residential properties in Shanghai were occupied as staff quarters of the Group.

In 2006, revenue of the property leasing business increased by 18.0% to HK\$14.3 million (2005: HK\$12.1 million). Segment profit amounted to HK\$63.9 million, up 157.7% on the previous year of HK\$24.8 million. After excluding the gain of HK\$52.7 million on revaluation of investment properties in 2006 (2005: HK\$15.2 million), segment profit was 16.7% higher than the preceding year.

MANUFACTURING AND TRADING BUSINESS

The Group's manufacturing and trading business consists of the manufacture and distribution of industrial lubricant oil products operated by Jaeger.

MANUFACTURING AND TRADING BUSINESS (Cont'd)

This segment recorded revenue of HK\$64.9 million in 2006 (2005: HK\$59.8 million), up 8.6% on the previous year. In 2006, 82.9% of Jaeger's revenue was derived from the PRC while the remaining revenue was derived mainly from Hong Kong. Segment profit was HK\$4.6 million (2005: HK\$2.7 million), representing an increase of 70.4% year-on-year.

During the year under review, Jaeger managed to adjust upward its average product prices by as much as 20%. As such, Jaeger was able to pass along higher costs of raw materials and transportation to its customers and maintained a slight improvement in gross margins compared with the preceding year. On the back of firming price trends, we have seen some of our customers switching to lower quality local brands in the PRC.

Since Jaeger is to a large extent exposed to movements in market prices of lubricant products, its management has been focusing on strategies that would enable it to improve its product mix towards higher value products and control costs so as to stabilise margins. Jaeger will continue to develop new customers from heavy industries in the PRC including die-casting, steel-making and car-making, and explore new markets particularly in the south-western part of the PRC.

SECURITIES INVESTMENT AND TRADING BUSINESS

In 2006, revenue of this segment was HK\$5.9 million (2005: HK\$0.3 million) and segment profit was HK\$2.9 million (2005: HK\$0.6 million), which were mainly derived from the disposal of financial assets listed in Hong Kong. Immediately following the disposal of a securities investment in January 2007 for net proceeds of HK\$157.8 million, the Group did not hold any securities for investment and trading.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group derived its funds mainly from cashflows generated from business operations as well as borrowings from banks and a fellow subsidiary. During the year ended 31 December 2006, the Group secured a new bank borrowing of RMB100 million to finance the construction of the superstructure of The Grand Panorama Project.

At 31 December 2006, cash and bank deposits (excluding pledged deposits) of the Group amounted to HK\$116.1 million (2005: HK\$143.3 million), of which 93.0%, 6.5% and 0.5% (2005: 50.9%, 18.1% and 31.0%) were denominated in RMB, HK\$ and US\$ respectively.

To finance the Group's real estate development projects, the consolidated borrowings, comprising borrowings from banks and a fellow subsidiary, increased to HK\$271.5 million as at 31 December 2006 (2005: HK\$63.1 million). Gearing ratio (total borrowings over total equity) of the Group rose from 10.5% as at 31 December 2005 to 33.2%.

At 31 December 2006, borrowings denominated in RMB amounted to RMB197.5 million (2005: RMB64.5 million), while the remaining balances of HK\$74.7 million (2005: HK\$1.1 million) were bank borrowings denominated in HK\$. Among the borrowings, HK\$171.8 million were payable within one year and HK\$99.7 million was a term bank loan of a tenure of two years. All of the Group's borrowings were on a floating interest rate basis. Finance costs charged to the income statement for the year ended 31 December 2006 amounted to HK\$0.9 million (2005: HK\$0.6 million) after capitalisation of HK\$9.5 million (2005: HK\$6.3 million) into the costs of properties under development. The unutilised banking facilities of the Group amounted to HK\$103.2 million as at 31 December 2006 (2005: HK\$176.0 million).

Capital commitments of the Group as at 31 December 2006 amounted to HK\$160.5 million (2005: HK\$275.9 million). These commitments related to properties under 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 HK\$, RMB and US\$, and accordingly, the Group has RMB exposure in large while the currency risk exposure to US\$ was considered to be minimal. Given that the expected appreciation of RMB would have positive impact on the Group's assets in the PRC and income generated from the PRC, the Group had not implemented hedging or other alternative measures during the year ended 31 December 2006. During the year under review, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

CHARGES ON GROUP ASSETS

At 31 December 2006, the Group pledged leasehold land and buildings and investment properties with carrying amounts of HK\$6.7 million (2005: HK\$8.8 million) and HK\$290.8 million (2005: HK\$236.3 million) respectively, properties under development of HK\$308.8 million (2005: Nil) and fixed bank deposits of HK\$37.0 million (2005: HK\$5.0 million) as securities for the Group's banking facilities.

CONTINGENT LIABILITIES

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

EMPLOYEES

At 31 December 2006, the Group employed 466 (2005: 438) staff, including the Directors . The total remuneration and benefits of the Directors and staff of the Group during the year ended 31 December 2006 were HK\$35.4 million (2005: HK\$34.6 million). The Group adopts a remuneration policy in line with market practice.

By order of the Board

Wang Xingdong

Managing Director

Hong Kong, 12 April 2007

CORPORATE GOVERNANCE REPORT

The Board 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 Shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, throughout the year ended 31 December 2006, the Company has complied with the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules, except for the following deviations:

- (i) Under code provision A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by the 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 three years.

According to the Bye-laws which was adopted on 26 May 2005, every Director (except the Chairman and the Managing Director), including those appointed by a specific term, should be subject to retirement by rotation at the annual general meeting at least once every three 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 the Company's annual general meeting for 2006, all Directors, except for the Chairman and the Managing Director, were subject to retirement by rotation in accordance with the Bye-laws. Pursuant to the private company act 1991 under which the Company was incorporated in Bermuda, the Chairman and the Managing Director are not subject to retirement by rotation, which deviates from code provision A.4.2. of the CG Code.

- (ii) Under code provision E.1.2 of the CG Code, the Chairman of the Board and the Chairman of the Remuneration Committee should attend and answer questions at the annual general meeting of the Company. Mr. Zhou Zhongshu, the Chairman of both the Board and the Remuneration Committee, had not attended the Company's annual general meeting for 2006 due to unexpected business commitment. Accordingly, Mr. Wang Xingdong, the Managing Director and a member of the Remuneration Committee, took the chair of the said meeting.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has established a set of guidelines 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 as set out in Appendix 10 to the Listing Rules. A designated committee comprising two 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 said 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 said designated committee, he or she must notify another member of the designated committee and receive 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 for the year ended 31 December 2006 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. There are currently four committees of the Board, 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 is responsible 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 nine Directors, including Mr. Zhou Zhongshu as the Chairman and a Non-executive Director, five Executive Directors and three Independent Non-executive Directors. All Non-executive Directors are appointed for a specific term of three years subject to the retirement and re-appointment provisions of the Bye-laws. Biographical details of all Directors are disclosed in the section headed "Directors' and Senior Management's Profile" in 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 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors, and one of whom has the appropriate accounting and financial management expertise and professional qualifications.

Mr. Lam Chun, Daniel, an Independent Non-executive Director, 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 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.

Written confirmations were received from each of the Independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors to be independent.

BOARD OF DIRECTORS (Cont'd)

Other than resolutions passed by means of resolutions in writing of all Directors, the Board held four meetings in 2006. Notice of at least fourteen days is given of a regular Board meeting to give all Directors an opportunity to attend. The attendance of individual Director at the meetings of the Board is set out below:

| Name of Director | Designation | Number of Board meetings held during the Director's term of office in 2006 | Number of Board meetings attended |
|--|---|---|--|
| Mr. Zhou Zhongshu (appointed on 28 February 2006) | Non-executive Director and the Chairman | 3 | 3 |
| Mr. Lin Xizhong (resigned on 28 February 2006) | Executive Director and the Chairman | 1 | 1 |
| Mr. Qian Wenchao | Executive Director and the Deputy Chairman | 4 | 4 |
| Mr. Wang Xingdong | Executive Director and the Managing Director | 4 | 4 |
| Mr. Yan Xichuan | Executive Director and a Deputy Managing Director | 4 | 4 |
| Mr. Yin Liang (appointed on 15 December 2006) | Executive Director and a Deputy Managing Director | 0 | 0 |
| Ms. He Xiaoli | Executive Director | 4 | 4 |
| Ms. Tam Wai Chu, Maria | Independent Non-executive Director | 4 | 4 |
| Mr. Lam Chun, Daniel | Independent Non-executive Director | 4 | 3 |
| Mr. Selwyn Mar | Independent Non-executive Director | 4 | 4 |

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 MANAGING DIRECTOR

The positions of the Chairman and the Managing Director are held by Mr. Zhou Zhongshu and Mr. Wang Xingdong respectively. This segregation of roles ensures that a clear distinction between the management of the Board by the Chairman and the day-to-day management of the Company's business by the Managing Director. The respective responsibilities of the Chairman and the Managing Director 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 has(have) the expertise which is relevant and beneficial to the Group's business; and
- c. assess the independence of the Company's Independent Non-executive Directors.

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.

Throughout the year 2006, the Board had been assisted by the Audit Committee in reviewing the effectiveness of the internal control system of the Group. 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 evaluation and recommendation were then submitted directly to the Audit Committee, with the purpose of ensuring that the effectiveness of the internal control system of the Group has been 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 2006, PwC, the independent auditor of the Group, received approximately HK\$1.59 million (2005: HK\$1.40 million) for audit services, and approximately HK\$0.72 million (2005: HK\$0.22 million) for non-audit services, which include fees for review of the 2006 interim report and provision of tax services.

BOARD COMMITTEES

A. Audit Committee

All the members of the Audit Committee are Independent Non-executive Directors. The committee is chaired by Mr. Selwyn Mar and the other members are Ms. Tam Wai Chu, Maria and Mr. Lam Chun, Daniel. 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 internal control system of the Group; reviewing the appointment of external auditors and the efficiency and quality of their work; and reviewing all internal audit reports as well as management feedback to such reports.

BOARD COMMITTEES (Cont'd)

A. Audit Committee (Cont'd)

There are four meetings held by the Audit Committee in 2006. The attendance of individual member at those meetings is set out below:

| Name of Director | Number of attendance |
|--|----------------------|
| Mr. Selwyn Mar (Chairman of Audit Committee) | 4/4 |
| Ms. Tam Wai Chu, Maria | 4/4 |
| Mr. Lam Chun, Daniel | 3/4 |

The major tasks accomplished by the Audit Committee for the year ended 31 December 2006 are as follows:

- a. reviewed the consolidated financial statements of the Group for the year ended 31 December 2005 and the independent auditor's report thereon and submitted them to the Board. The Audit Committee has also carried out a general review on the unaudited interim financial report for the six months ended 30 June 2006;
- b. reviewed the management recommendations furnished by the external auditors and the responses from the Group's management;
- c. reviewed with the management the accounting principles and practices adopted by the Group;
- d. reviewed and made recommendations on the appointment of external auditors and to approve their remuneration and terms of engagement on audit services;
- 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 direct the internal audit department in its approaches to audit planning and reports;
- g. furnished its opinions 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 external auditors on 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 Directors and senior management.

The chairman of the Remuneration Committee is Mr. Zhou Zhongshu, the Chairman of the Company. The other members of the committee are Mr. Wang Xingdong, an Executive Director and the Managing Director of the Company and Ms. Tam Wai Chu, Maria, Mr. Lam Chun, Daniel and Mr. Selwyn Mar, all being Independent Non-executive Directors of the Company.

The Remuneration Committee held one meeting during the year ended 31 December 2006. The attendance of individual member at such meeting is set out below:

| Name of Director | Number of attendance |
|--|----------------------|
| Mr. Zhou Zhongshu (Chairman of Remuneration Committee) | 1/1 |
| Mr. Wang Xingdong | 1/1 |
| Ms. Tam Wai Chu, Maria | 1/1 |
| Mr. Lam Chun, Daniel | 1/1 |
| Mr. Selwyn Mar | 1/1 |

During the year under review, the Remuneration Committee reviewed and discussed the recruitment of senior management staff and their remuneration package. In the meeting, the Remuneration Committee also discussed the remuneration scheme of Directors and reviewed the Option Scheme.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for the preparation of the consolidated 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 consolidated financial statements for the year ended 31 December 2006, the Directors ensured that the consolidated financial statements have been prepared 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 consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

The statement of the independent auditor of the Company, PwC, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's 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.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS



From left to right: **Mr. ZHOU Zhongshu**; **Mr. QIAN Wenchao**; **Mr. WANG Xingdong**; **Mr. YAN Xichuan**; **Mr. YIN Liang**

Mr. ZHOU Zhongshu, aged 54, was appointed as an Executive Director and the Chairman of the Company in February 2006. Mr. Zhou was then re-designated as a Non-executive Director of the Company in May 2006. He is the president of China Minmetals and the chairman of China Minmetals Non-ferrous Metals Company Limited and Minmetals HK. Mr. Zhou is also the chairman of Minmetals Development Co., Ltd. (a company whose shares are listed on the Shanghai Stock Exchange) and a non-executive director and the chairman of Minmetals Resources Limited (a company whose shares are listed on the Stock Exchange).

Mr. Zhou graduated from Shanghai International Studies University in the PRC and majored in Spanish language. He joined China Minmetals in 1978. From 2000 to 2002, Mr. Zhou was the 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. QIAN Wenchao, aged 42, was appointed as an Executive Director of the Company in November 2003. In December 2006, Mr. Qian was nominated to the position of the Deputy Chairman of the Company. He is also a director of Minmetals HK. Mr. Qian graduated from Beijing Technology and Business University with a Bachelor of Arts degree in 1987 and completed his graduate study in accounting in the same university in 1989. He joined China Minmetals in 1989 and was assigned to the Overseas Enterprises Division of China Minmetals with responsibilities in financial management. Mr. Qian has over 10 years of experience in corporate financial management.

Mr. WANG Xingdong, aged 46, was appointed as an Executive Director and the Managing Director of the Company in March 2001. Mr. Wang is 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 (a company whose shares are listed on the Stock Exchange).

Mr. Wang graduated from 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, Mr. Wang was a member of senior management of China Minmetals' subsidiaries in the U.S.A. and Germany which conducted trading of metals and mineral products for many years. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.

Mr. YAN Xichuan, aged 60, was appointed as an Executive Director and a Deputy Managing Director of the Company in August 2002. Mr. Yan is responsible for the operation and strategic planning of the Company's subsidiaries which are principally engaged in specialised construction business.

Mr. Yan graduated from 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 Investment Department of COHL and the president of Gold Court Property Management Limited. Mr. Yan had participated in various construction projects in the PRC and Hong Kong and has over 30 years of experience in construction, civil engineering, real estate investment and project management.

Mr. YIN Liang, aged 38, was appointed as an Executive Director and a Deputy Managing Director of the Company in December 2006. He graduated from the University of International Business and Economics of China in 1991 with a Bachelor of Law degree and obtained a Master's degree in Business Administration from Saint Mary's University of Canada and a Master's degree in Law from the University of Hong Kong. Mr. Yin joined China Minmetals in 1991 and has been serving various departments of China Minmetals group for trading, legal affairs, investment and corporate management. Mr. Yin is currently the vice general manager of China Mimet Investment Limited and the board secretary and general manager of the executive office of Minmetals HK. He is also a director of Shenzhen SDG Information Co., Ltd. (a company whose shares are listed on the Shenzhen Stock Exchange). Mr. Yin has extensive experience in investment and corporate management.



From left to right: **Ms. HE Xiaoli**; **Ms. TAM Wai Chu, Maria**; **Mr. LAM Chun, Daniel**; **Mr. Selwyn MAR**

Ms. HE Xiaoli, aged 39, 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 North China University of Technology and a Master's degree in Business Administration from the University of South Australia. She is a qualified PRC Senior Accountant and a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Company, Ms. He was the head of business division and the deputy minister of accounting information division of the finance department of the previous China National Nonferrous Metals Industry Corporation. Ms. He has extensive experience in financial management of enterprises.

Ms. TAM Wai Chu, Maria, aged 61, 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 and 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 as well as a member of the Basic Law Committee of the HKSAR, the Bar Association, the Urban Renewal Authority, the Advisory Committee on Corruption of the Independent Commission Against Corruption and the Commission on Strategic Development.

Mr. LAM Chun, Daniel, aged 61, 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, 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, The Hongkong and Shanghai Banking Corporation Limited, Sime Darby Group, CLP Holdings Limited 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 71, 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, a 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 has been actively involved in commercial and industrial undertakings in Hong Kong and the PRC in the past 29 years. Presently, he sits on the board of two other Hong Kong listed companies. Mr. Mar is an Honorary Fellow of the Lingnan University.

SENIOR MANAGEMENT

Mr. LAW Yiu Wing, Patrick, aged 44, joined the Company as the Chief Operating Officer in September 2006. Mr. Law assists the Managing Director in business development, day-to-day operation and financial and general management of the Company. Mr. Law is also responsible for the planning, management and development of the Company's business in real estate development and investment. He holds a Bachelor of Building (Hons.) degree from the University of New South Wales, Australia and a Master of Business Administration degree from the Australian Graduate School of Management (AGSM). Mr. Law is a member of Australian Institute of Building, Hong Kong Institute of Certified Public Accountants and CPA Australia. He has extensive experience in property development, strategic planning, financial and general management gained from listed companies.

Ms. YUEN Wai Man, Shirine, aged 34, joined the Company as the Financial Controller in May 2002. Ms. Yuen has also been appointed as the Qualified Accountant of the Company since 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 had worked in an international professional firm and a listed company in Hong Kong to gain her extensive experience in financial and general management.

Ms. CHUNG Wing Yee, Zoe, aged 40, joined the Company as the Company Secretary in August 2006. She is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Chung has extensive experience in company secretarial practice gained from professional firms and listed companies.

Mr. SZETO Wai Hung, Augustine, aged 47, was appointed as the General Manager of the Company's Corporate Development Department in January 2005. He also holds the position of the Managing Director of the Jaeger Group since 1997. Mr. Szeto 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 of Australia and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Szeto has over 20 years of experience in manufacturing operation and financial and general management.

Ms. CHEN Xie Ying, Christine, aged 43, joined the Company as the Internal Audit Manager in April 2003. 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 the 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, Maisie, aged 45, joined the Company in May 1993 and is the Human Resources Manager of the Company. She is responsible for administration and human resources management of the Company. Ms. Wong has extensive experience in corporate administration and human resources management.

REPORT OF THE DIRECTORS

The Board would like to submit the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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 consolidated 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 consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 33.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: 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 consolidated financial statements.

SHARE CAPITAL

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

RESERVES

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

PROPERTIES

Particulars of the major properties held for investment and properties under development of the Group are set out on page 91.

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 92.

INFORMATION RELATING TO THE OPTION SCHEME

On 29 May 2003, the Company adopted the Option Scheme to recognise and acknowledge the contributions that eligible persons had made or may from time to time make to the Group whether in the past or in the future.

INFORMATION RELATING TO THE OPTION SCHEME (Cont'd)

The principal terms of the Option Scheme are set out as follows:

(1) Participants of the Option Scheme

Any directors or any employees of any companies of the Group and any advisers of, consultants of, contractors to any companies of the Group or any person who has any relationship (whether business or otherwise) with any companies 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.

(2) 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 Option 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.

(3) Total number of shares available for issue under the Option Scheme

The remaining number of shares available for issue under the Option Scheme is 4,900,000, representing approximately 0.6% of the issued share capital of the Company as at the date of this report.

(4) Maximum entitlement of each participant under the Option Scheme

No options under the Option 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 Option 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.

(5) 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.

(6) Time of acceptance and the amount payable on acceptance of the option

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

(7) The basis of determining the subscription price

The subscription price shall be determined by the Board 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.

(8) The remaining life of the Option Scheme

The Option Scheme is valid until 28 May 2013.

INFORMATION RELATING TO THE OPTION SCHEME (Cont'd)

Details of the movements of share options during the year ended 31 December 2006 are as follows:

| Category of participant | Date of grant | Exercise period | Exercise price | Number of share options | | | |
|-----------------------------|---------------|---------------------------------|----------------|-------------------------|------------------------|---------------------------|------------------------|
| | | | | As at 1 January 2006 | Lapsed during the year | Exercised during the year | As at 31 December 2006 |
| | | | HK\$ | | | | |
| (i) Directors | | | | | | | |
| Lin Xizhong | 15 March 2004 | 16 March 2004 to 15 March 2007 | 0.83 | 4,000,000 | 4,000,000 | - | - |
| Qian Wenchao | 15 March 2004 | 16 March 2004 to 15 March 2007 | 0.83 | 1,500,000 | - | - | 1,500,000 |
| Wang Xingdong | 15 March 2004 | 16 March 2004 to 15 March 2007 | 0.83 | 3,000,000 | - | - | 3,000,000 |
| Yan Xichuan | 15 March 2004 | 16 March 2004 to 15 March 2007 | 0.83 | 2,000,000 | - | - | 2,000,000 |
| He Xiaoli | 15 March 2004 | 16 March 2004 to 15 March 2007 | 0.83 | 1,500,000 | - | - | 1,500,000 |
| (ii) Employees of the Group | 15 March 2004 | 17 March 2004 to 26 April 2007* | 0.83 | 8,100,000 | 1,300,000 | - | 6,800,000 |
| | | | | 20,100,000 | 5,300,000 | - | 14,800,000 |

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

Save as disclosed above, no share options lapsed or were cancelled in accordance with the terms of the Option Scheme during the year.

In order to afford more flexibility to the Board in the operation of the Option Scheme, a special resolution to empower the Board to decide any vested portion and/or unvested portion of an option could be exercised by an option holder under the circumstances as stipulated in clause 8 of the Option Scheme will be proposed at the Company's annual general meeting convened to be held on 18 May 2007 (the "AGM"). A circular containing information regarding, the proposed amendments to the Option Scheme will be sent to Shareholders together with the 2006 annual report of the Company.

DIRECTORS

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

Non-executive Director

Zhou Zhongshu

(appointed on 28 February 2006 as an Executive Director and re-designated as a Non-executive Director on 25 May 2006)

Executive Directors

Qian Wenchao

Wang Xingdong

Yan Xichuan

Yin Liang

(appointed on 15 December 2006)

He Xiaoli

Lin Xizhong

(resigned on 28 February 2006)

Independent Non-executive Directors

Tam Wai Chu, Maria

Lam Chun, Daniel

Selwyn Mar

Mr. Yin Liang will retire from the office of Director at the AGM in accordance with bye-law 102 of the Bye-Laws and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the AGM 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 2006, 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 SFO), which had been notified to the Company and the 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, 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

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

Note: Details of the interests of Directors in share options of the Company are detailed in the paragraph headed "Information Relating to the Option Scheme" above.

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 2006, none of the Directors or the chief executive of the Company or any of their associates (as defined in the Listing Rules) had any personal, family, corporate or other interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

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) during the year ended 31 December 2006.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Save as disclosed in the paragraphs headed "Information Relating to the Option Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, the Company had no other outstanding options, convertible securities, warrants or other similar rights as at 31 December 2006.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, according to the register of interests kept by the Company under section 336 of the SFO, the following entities had interests 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 <i>(Note)</i> | 416,585,852 | 53.95% |
| Minmetals HK <i>(Note)</i> | 416,585,852 | 53.95% |
| 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 in the Company.

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 2006:

1. Wilson Murray Far East Limited, 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 (the "PM Agreement"). Details of the PM Agreement were published in the Company's announcement dated 29 July 2004.

CONTRACTS OF SIGNIFICANCE (Cont'd)

2. ZOBHP, a wholly-owned subsidiary of the Company, and Minmetals Finance (an associate of Minmetals HK) entered into a RMB loan agreement dated 11 January 2006 (the "RMB Loan Agreement I"), details of which are set out below:

| | | |
|---------------------|---|--|
| Amount of the loan | : | RMB30,000,000 ("RMB Loan I") |
| Term | : | 1 year |
| Interest rate | : | 110% of the rate for RMB short-term loans as quoted by the PRC from time to time |
| Purpose of the loan | : | to finance the general working capital requirement of ZOBHP |

3. Minmetals HK, Minmetals Finance and ZOBHP entered into a corporate guarantee dated 11 January 2006 pursuant to which Minmetals HK, as a guarantor, undertakes the repayment of the RMB Loan I and the relevant interests and charges if ZOBHP does not repay the principal amount of the RMB Loan I and the relevant interests and charges in accordance with the terms and conditions of the RMB Loan Agreement I.

4. ZOBHP and Minmetals Finance entered into a RMB loan agreement dated 20 March 2006 (the "RMB Loan Agreement II"), details of which are set out below:

| | | |
|---------------------|---|--|
| Amount of the loan | : | RMB52,000,000 ("RMB Loan II") |
| Term | : | 1 year |
| Interest rate | : | 110% of the rate for RMB short-term loans as quoted by the PRC from time to time |
| Purpose of the loan | : | to finance the general working capital requirement of ZOBHP |

5. Minmetals HK, Minmetals Finance and ZOBHP entered into a corporate guarantee dated 20 March 2006 pursuant to which Minmetals HK, as a guarantor, undertakes the repayment of the RMB Loan II and the relevant interests and charges if ZOBHP does not repay the principal amount of the RMB Loan II and the relevant interests and charges in accordance with the terms and conditions of the RMB Loan Agreement II.

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 2006.

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 | |
| | 2006 | 2005 | 2006 | 2005 |
| The largest customer | 16.7% | 18.0% | | |
| Five largest customers in aggregate | 45.3% | 43.8% | | |
| The largest supplier | | | 12.0% | 30.9% |
| Five largest suppliers in aggregate | | | 34.0% | 48.3% |

At no time during the year, have the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the above 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.

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTIONS

- Brena is a wholly-owned subsidiary of the Company while Texion is a wholly-owned subsidiary of Minmetals HK. On 31 May 2004, a tenancy agreement was entered into between Brena as the tenant and Texion as the landlord (the "Tenancy Agreement"), details of which 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 (both dates inclusive) |
| Rental | : HK\$63,723.00 per calendar month (exclusive of government rates and 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) |

CONTINUING CONNECTED TRANSACTIONS (Cont'd)

2. EEL is a wholly-owned subsidiary of the Company while Cheemimet is a wholly-owned subsidiary of Minmetals HK. On 21 June 2004, a licence agreement was entered into between EEL as the licensee and Cheemimet as the licensor (the "Licence Agreement"), details of which 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 (both dates inclusive)

Licence fee : HK\$17,922.10 per calendar month (exclusive of government rates, management fee and other outgoings)

Other charges : HK\$6,843.10 per calendar month (being the licensee's share of the management fee)

3. On 1 June 2006, a new tenancy agreement was entered into between Brena as the tenant and Texion as the landlord (the "New Tenancy Agreement"), details of which are set out below:

Property : 18th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong

Period : 1 June 2006 to 31 May 2008 (both dates inclusive)

Rental : HK\$92,688.00 per calendar month (exclusive of government rates and 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)

4. On 1 June 2006, a new licence agreement was entered into between EEL as the licensee and Cheemimet as the licensor (the "New Licence Agreement"), details of which are set out below:

Property : certain portions of 16th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong

Period : 1 June 2006 to 15 May 2007 (both dates inclusive)

Licence fee : HK\$26,068.50 per calendar month (exclusive of government rates, management fee 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 had reviewed the transactions contemplated under the Tenancy Agreement, the Licence Agreement, the New Tenancy Agreement and the New Licence Agreement for the year ended 31 December 2006 (collectively, the “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, the Licence Agreement, the New Tenancy Agreement and the New Licence Agreement that are fair and reasonable and in the interests of the Shareholders as a whole.

PwC had reviewed the Transactions and reported that:

- (a) the Directors have approved the Transactions upon entering into the Tenancy Agreement, the Licence Agreement, the New Tenancy Agreement and the New Licence Agreement governing such Transactions;
- (b) the Transactions have been entered into in accordance with the terms of each of the Tenancy Agreement, the Licence Agreement, the New Tenancy Agreement and the New Licence Agreement;
- (c) the transactions contemplated under the Tenancy Agreement and the New Tenancy Agreement have not exceeded the annual caps as disclosed in the announcements of the Company dated 31 May 2004 and 1 June 2006; and
- (d) the transactions contemplated under the New Licence Agreement have not exceeded the annual cap as disclosed in the announcement of the Company dated 1 June 2006.

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 (the “Facilities”) to the extent of an aggregate amount of HK\$156,135,000 pursuant to the facility letters all dated 28 July 2005 issued by the bank to OFL, EEL, JOC and Virtyre respectively (the “Facility Letters”). The Facilities were revised by the bank to an aggregate amount of HK\$216,135,000 pursuant to a facility letter issued by the bank on 16 November 2006 (the “New Facility Letter”). 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 and New Facility Letter) 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.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date are set out in Note 34 to the consolidated financial statements.

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, Ms. Tam Wai Chu, Maria, Mr. Lam Chun, Daniel and Mr. Selwyn Mar. The Audit Committee has reviewed with the independent auditor the audited consolidated financial statements for the year ended 31 December 2006 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

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

By order of the Board

Wang Xingdong

Managing Director

Hong Kong, 12 April 2007

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道會計師事務所

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www.pwcc.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ONFEM HOLDINGS LIMITED (INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of ONFEM Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 33 to 90, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|---|-------|------------------|------------------|
| Revenue | 5 | 303,085 | 231,322 |
| Cost of sales | | (239,260) | (174,012) |
| Gross profit | | 63,825 | 57,310 |
| Other income | 6 | 2,867 | 10,317 |
| Selling and distribution costs | | (14,032) | (11,752) |
| Administrative expenses | | (30,166) | (43,761) |
| Other operating expenses | | (3,207) | (2,220) |
| Revaluation gain on investment properties | 15 | 52,670 | 15,196 |
| Write-back of provision for properties under development | 19(a) | 36,276 | – |
| Operating profit | 7 | 108,233 | 25,090 |
| Finance costs | 9 | (948) | (583) |
| Profit before tax | | 107,285 | 24,507 |
| Income tax | 10 | (1,440) | 3,642 |
| Profit for the year | | 105,845 | 28,149 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | 105,845 | 28,149 |
| Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK cents per share) | | | |
| – basic and diluted | 12 | 13.71 | 3.65 |
| Dividends | 13 | – | – |

The notes on pages 39 to 90 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 17,545 | 15,346 |
| Investment properties | 15 | 290,769 | 239,899 |
| Goodwill | 16 | 20,095 | 19,383 |
| Available-for-sale financial assets | 18 | – | 29,340 |
| Deferred tax assets | 27 | 932 | 932 |
| Retention receivables | 21 | 9,866 | 4,539 |
| Other assets | | 197 | 349 |
| | | 339,404 | 309,788 |
| Current assets | | | |
| Inventories | 19 | 488,607 | 214,796 |
| Trade and other receivables | 20 | 157,363 | 161,982 |
| Gross amounts due from customers for contract work | 21 | 617 | 744 |
| Available-for-sale financial assets | 18 | 136,080 | – |
| Financial assets at fair value through profit or loss | | – | 2,778 |
| Pledged deposits | 22 | 36,994 | 5,000 |
| Cash and bank deposits | 23 | 116,101 | 143,347 |
| | | 935,762 | 528,647 |
| Total assets | | 1,275,166 | 838,435 |

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------|------------------|------------------|
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 24 | 77,218 | 77,218 |
| Reserves | 25 | 740,611 | 522,816 |
| Total equity | | 817,829 | 600,034 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | 26 | 99,640 | – |
| Deferred tax liabilities | 27 | – | 105 |
| Other liabilities | | 6,226 | 7,220 |
| | | 105,866 | 7,325 |
| Current liabilities | | | |
| Trade and other payables | 28 | 168,323 | 157,600 |
| Current tax payable | | 11,326 | 10,382 |
| Borrowings | 26 | 171,822 | 63,094 |
| | | 351,471 | 231,076 |
| Total liabilities | | 457,337 | 238,401 |
| Total equity and liabilities | | 1,275,166 | 838,435 |
| Net current assets | | 584,291 | 297,571 |
| Total assets less current liabilities | | 923,695 | 607,359 |

Wang Xingdong
Director

He Xiaoli
Director

The notes on pages 39 to 90 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 17(a) | 12,701 | – |
| Current assets | | | |
| Loans to subsidiaries | 17(b) | 1,718 | 3,623 |
| Amounts due from subsidiaries | 17(c) | 745,921 | 543,959 |
| Other receivables | 20 | 325 | 1,002 |
| Pledged deposits | 22 | 5,000 | 5,000 |
| Cash and bank deposits | 23 | 2,605 | 49,976 |
| | | 755,569 | 603,560 |
| Total assets | | 768,270 | 603,560 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | 24 | 77,218 | 77,218 |
| Reserves | 25 | 681,368 | 505,027 |
| Total equity | | 758,586 | 582,245 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Other payables | 28 | 9,684 | 21,315 |
| Total liabilities | | 9,684 | 21,315 |
| Total equity and liabilities | | 768,270 | 603,560 |
| Net current assets | | 745,885 | 582,245 |
| Total assets less current liabilities | | 758,586 | 582,245 |

Wang Xingdong
Director

He Xiaoli
Director

The notes on pages 39 to 90 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---|------------------|------------------|
| Balance at 1 January | 600,034 | 568,527 |
| Revaluation surplus of available-for-sale financial assets | 106,740 | 900 |
| Currency translation adjustments | 5,210 | 2,458 |
| Net income directly recognised in equity | 111,950 | 3,358 |
| Profit for the year, attributable to equity holders of the Company | 105,845 | 28,149 |
| Total recognised income for the year | 217,795 | 31,507 |
| Balance at 31 December | 817,829 | 600,034 |

The notes on pages 39 to 90 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------|------------------|------------------|
| Operating activities | | | |
| Cash (used in)/generated from operations | 30 | (227,838) | 1,182 |
| Interest paid | | (10,406) | (6,837) |
| Income tax paid | | (601) | (823) |
| Net cash used in operating activities | | (238,845) | (6,478) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (4,578) | (3,993) |
| Proceeds from sales of financial assets at fair value through profit or loss | | 5,895 | – |
| Proceeds from disposal of property, plant and equipment | | 352 | 7,426 |
| Proceeds from disposal of leasehold land and land use rights | | – | 2,839 |
| Dividends received | | – | 393 |
| Interest received | | 1,562 | 2,358 |
| Net cash generated from investing activities | | 3,231 | 9,023 |
| Financing activities | | | |
| New borrowings | | 267,946 | 61,991 |
| Repayment of borrowings | | (61,991) | (41,973) |
| Net cash generated from financing activities | | 205,955 | 20,018 |
| (Decrease)/increase in cash and cash equivalents | | (29,659) | 22,563 |
| Cash and cash equivalents at 1 January | | 142,244 | 119,681 |
| Cash and cash equivalents at 31 December | 23 | 112,585 | 142,244 |

The notes on pages 39 to 90 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. ORGANISATION AND OPERATIONS

ONFEM Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is principally engaged in real estate development and project management, property leasing, specialised construction, manufacturing and trading, and securities investment and trading businesses. The Group’s businesses participate in two principal economic environments. Hong Kong and Macau, and the People’s Republic of China (other than Hong Kong and Macau) (the “PRC”) are the major markets for all the Group’s businesses, with a small portion of its income derived from other countries.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(a) Basis of preparation (Cont'd)

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

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

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

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

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

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

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

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

(b) Consolidation

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

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

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

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

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

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

(c) Segment reporting

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

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

(d) Foreign currency translation

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

(iii) *Group companies*

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

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

(e) Revenue recognition

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

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

(i) *Sales of completed properties*

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

(ii) *Contract revenue*

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

(iii) *Operating lease rental income*

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

(iv) *Sales of goods*

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

(v) *Sales of securities investments*

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

(vi) *Dividend income*

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

(vii) *Interest income*

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

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

(f) Operating leases

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

(g) Borrowing costs

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

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

(h) Property, plant and equipment

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

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

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

| | |
|-----------------------------------|--|
| Leasehold land and buildings | 2% – 5% |
| Leasehold improvements | Over the remaining period of the lease |
| Plant and machinery | 5% – 25% |
| Furniture, fixtures and equipment | 15% – 25% |
| Motor vehicles | 20% – 30% |

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

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

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

(i) Investment properties

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

Investment property comprises land held under operating leases and buildings.

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

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

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

Changes in fair values are recognised in the income statement.

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

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

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

(j) Goodwill

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

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

(k) Impairment

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

(l) Financial assets

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

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

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

(ii) *Loans and receivables*

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

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

(l) Financial assets (Cont'd)

(iii) Available-for-sale financial assets

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

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

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

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

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

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

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

(m) Inventories

(i) *Manufacturing and trading*

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

(ii) *Properties under development*

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

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

Properties under development are carried at the lower of cost and net realisable value. Cost comprises original land acquisition costs, costs of land use rights, construction expenditures incurred, other direct development costs attributable to such properties, including borrowing costs capitalised, and an appropriate proportion of overheads. Net realisable value is the anticipated sales proceeds estimated by the directors based on prevailing market prices, on an individual property basis, less estimated costs to completion and costs to be incurred in selling the property.

(n) Trade and other receivables

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

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

(o) Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the “percentage of completion method” to determine the appropriate amount to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

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

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

(p) Cash and cash equivalents

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

(q) Share capital

Ordinary shares are classified as equity.

(r) Borrowings

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

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

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

(s) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

(t) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Pension obligations*

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

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

(iii) *Share-based compensation*

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

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

(t) Employee benefits (Cont'd)

(iv) Termination benefits

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

(u) Trade and other payables

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

(v) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

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

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

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

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

3. FINANCIAL RISK FACTORS AND MANAGEMENT

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

(a) Foreign exchange risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Interest rate risk

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Investment properties

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

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

(b) Goodwill

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

(c) Fair value estimation of financial assets and liabilities

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

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

(d) Construction contracts in progress

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

(e) Income taxes

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

5. SEGMENT INFORMATION

(a) Primary reporting format – business segments

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

| | |
|---|--|
| Real estate development and project management: | Development of residential and commercial properties, as well as provision of construction project management services |
| Specialised construction: | Design, installation and selling of curtain walls and aluminium windows, doors and fire-proof materials |
| Property leasing: | Leasing of premises to generate rental income and to gain from the appreciation in the properties' values in the long term |
| Manufacturing and trading: | Manufacturing and trading of lubricant oil and chemical products |
| Securities investment and trading: | Trading and investment of securities |

Revenue during the year comprised the following:

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

5. SEGMENT INFORMATION (Cont'd)

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

(i) Segment revenue and result

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

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

5. SEGMENT INFORMATION (Cont'd)

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

(ii) Segment assets and liabilities

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

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

(iii) Other segment information

| | Real estate development and project management | | Specialised construction | | Property leasing | | Manufacturing and trading | | Securities investment and trading | | Unallocated | | Total | |
|---|--|----------|-----------------------------|----------|---------------------|----------|------------------------------|----------|---|----------|-------------|----------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital expenditure | 1,031 | 537 | 1,718 | 1,985 | 159 | 737 | 640 | 548 | - | - | 1,030 | 186 | 4,578 | 3,993 |
| Depreciation recognised in the income statement | 262 | 238 | 296 | 467 | 66 | 117 | 626 | 942 | - | - | 828 | 972 | 2,078 | 2,736 |
| Revaluation gain on investment properties | - | - | - | - | 52,670 | 15,196 | - | - | - | - | - | - | 52,670 | 15,196 |
| Write-back of provision for properties under development | 36,276 | - | - | - | - | - | - | - | - | - | - | - | 36,276 | - |
| Impairment loss/(reversal of impairment loss) recognised in the income statement | - | - | 5,267 | (3,767) | (109) | - | 16 | 433 | - | - | (15,385) | (256) | (10,211) | (3,590) |

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

5. SEGMENT INFORMATION (Cont'd)

(b) Secondary reporting format – geographical segments

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

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

The PRC: Real estate development and project management, specialised construction, property leasing, and manufacturing and trading

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

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

6. OTHER INCOME

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

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

7. OPERATING PROFIT

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

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

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

8. EMPLOYEE BENEFIT EXPENSE

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

(a) Directors' emoluments

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

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

8. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(a) Directors' emoluments (Cont'd)

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

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

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

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

notes:

- (i) Appointed on 28 February 2006.
- (ii) Resigned on 28 February 2006.
- (iii) Appointed on 15 December 2006.

8. EMPLOYEE BENEFIT EXPENSE (Cont'd)

(b) Five highest-paid individuals

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

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

The emoluments fell within the following bands:

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

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

9. FINANCE COSTS

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

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

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

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

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

12. EARNINGS PER SHARE

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

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

13. DIVIDENDS

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

14. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

15. INVESTMENT PROPERTIES

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

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

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

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

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

16. GOODWILL

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

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

- (b)
- Impairment test for goodwill**

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

| | 2006 | 2005 |
|--------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Specialised construction | 20,095 | 19,383 |

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

17. SUBSIDIARIES**(a) Investments in subsidiaries**

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

(b) Loans to subsidiaries

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

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

(c) Amounts due from subsidiaries

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

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

17. SUBSIDIARIES (Cont'd)

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

| Name of subsidiary | Place of incorporation/ operations | Particulars of issued/registered and paid up capital (note (i)) | Percentage of equity | | Principal activities |
|---|------------------------------------|---|------------------------------|--------------------------------|---|
| | | | Directly held by the Company | Indirectly held by the Company | |
| Best Pearl Development Limited | Hong Kong | 1,000 shares of HK\$1 each | – | 100 | Property investment |
| Brena Company Limited | Hong Kong | 500,000 shares of HK\$1 each | – | 100 | Provision of management services |
| Bright Circle Limited | Hong Kong | 10,000 shares of HK\$1 each | – | 100 | Property investment |
| Dongguan Bridgman Fire Doors Limited (note (ii)) | PRC | RMB12,062,711 | – | 100 | Manufacturing of fire-proof doors |
| Dragon Construction (Nanjing) Properties Company Limited (note (iii)) | PRC | US\$3,300,000 | – | 100 | Property development |
| Eastrend (Hong Kong) Limited | Hong Kong | 2 shares of HK\$1 each | – | 100 | Property investment |
| Enful Engineering Limited | Hong Kong/ Hong Kong and PRC | 100 shares of HK\$1 each and 500,000 non-voting deferred shares of HK\$1 each | – | 100 | Selling and installation of fire proof materials and products |
| Full Pacific Limited | Hong Kong | 2 shares of HK\$1 each | – | 100 | Property investment |

17. SUBSIDIARIES (Cont'd)

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

| Name of subsidiary | Place of incorporation/ operations | Particulars of issued/registered and paid up capital (note (i)) | Percentage of equity | | Principal activities |
|---------------------------------------|------------------------------------|---|------------------------------|--------------------------------|--|
| | | | Directly held by the Company | Indirectly held by the Company | |
| Geraldine Profits Limited | British Virgin Islands/Hong Kong | 1 share of US\$1 | – | 100 | Securities trading |
| Great Way Properties Limited | Hong Kong/ PRC | 2 shares of HK\$1 each | – | 100 | Property investment |
| Jaeger Development Limited | British Virgin Islands | 1 share of US\$1 | – | 100 | Investment holding |
| Jaeger Oil & Chemical Company Limited | Hong Kong | 10 shares of HK\$100 each and 20,000 non-voting deferred shares of HK\$100 each | – | 100 | Manufacturing and trading of lubricant oil and chemical products |
| Linkcheer Limited | Hong Kong | 2 shares of HK\$1 each | – | 100 | Property investment |
| ONFEM Finance Limited | British Virgin Islands/Hong Kong | 1,000 shares of US\$1 each | 100 | – | Provision of financing for group companies |
| ONFEM Investments Limited | British Virgin Islands/Hong Kong | 100 shares of US\$10 each | 100 | – | Investment holding |

17. SUBSIDIARIES (Cont'd)

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

| Name of subsidiary | Place of incorporation/ operations | Particulars of issued/registered and paid up capital (note (i)) | Percentage of equity | | Principal activities |
|--|---------------------------------------|---|------------------------------|--------------------------------|---|
| | | | Directly held by the Company | Indirectly held by the Company | |
| Oriental Dragon Construction Limited (note (iii)) | Hong Kong/ Hong Kong and PRC | 10,000 shares of HK\$1 each | – | 100 | Investment holding |
| Shanghai Jin Qiao Condo Decoration Engineering Co., Ltd. (note (iv)) | PRC | US\$2,040,000 | – | 100 | Design and installation of curtain walls and aluminum windows |
| Tinnex Management Limited | Hong Kong | 2 shares of HK\$1 each | – | 100 | Property management |
| Top Gain Properties Limited | Hong Kong/ PRC | 2 shares of HK\$1 each | – | 100 | Property investment |
| Virtyre Limited | Hong Kong | 2 shares of HK\$10 each | – | 100 | Property investment |
| Wilson Murray Far East Limited | Hong Kong | 100 shares of HK\$10 each | – | 100 | Provision of construction project management services |
| Zhuhai (Oriental) Blue Horison Properties Company Limited (note (v)) | PRC | RMB44,000,000 | – | 100 | Property development |

17. SUBSIDIARIES (Cont'd)

notes:

- (i) The class of shares held is ordinary unless otherwise stated. None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2006.
- (ii) Dongguan Bridgman Fire Doors Limited ("Dongguan Bridgman") is a Sino-foreign equity joint venture established in the PRC with an initial operating period of 12 years up to 2005 and further extending to 2017, of which Bridgman Fire Doors (H.K.) Limited ("Bridgman HK"), a wholly-owned subsidiary of the Company, is a joint venture partner. Pursuant to the terms as stipulated in the joint venture agreement, the Chinese joint venture partner is entitled to a fixed annual guaranteed distribution of RMB60,000 while Bridgman HK is entitled to share all the profit/loss of Dongguan Bridgman after deducting the distribution to the Chinese joint venture partner.
- (iii) Dragon Construction (Nanjing) Properties Company Limited, a wholly-owned subsidiary of Oriental Dragon Construction Limited ("ODCL"), is a foreign investment enterprise established in the PRC with an operating period of 15 years up to 2021.

Pursuant to a shareholders' agreement dated 11 April 2006 entered into amongst Karman Industries Limited ("KIL"), Stillpower Limited ("SL") (both are wholly-owned subsidiaries of the Company), World Ocean Development Limited ("WODL") and ODCL, ODCL will become a joint venture company, owned as to 71% by the Company through KL and SL and 29% by WODL, upon completion of the share transfer.
- (iv) Shanghai Jin Qiao Condo Decoration Engineering Co., Ltd., a wholly-owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 15 years up to 2008.
- (v) Zhuhai (Oriental) Blue Horison Properties Company Limited, a wholly-owned subsidiary of the Company, is a foreign investment enterprise established in the PRC with an operating period of 8 years up to 2007.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Available-for-sale financial assets include the following:

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

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

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

19. INVENTORIES

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

(a) Properties under development

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

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

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

20. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

21. CONSTRUCTION CONTRACTS IN PROGRESS

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

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

22. PLEDGED DEPOSITS

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

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

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

23. CASH AND CASH EQUIVALENTS

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

23. CASH AND CASH EQUIVALENTS (Cont'd)

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

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

24. SHARE CAPITAL

| | 2006 | | 2005 | |
|---------------------------------|----------------------------|--------------------|----------------------------|--------------------|
| | No. of Shares (‘000) | Amount HK\$'000 | No. of Shares (‘000) | Amount HK\$'000 |
| Authorised: | | | | |
| Ordinary shares of HK\$0.1 each | 2,000,000 | 200,000 | 2,000,000 | 200,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK\$0.1 each | 772,182 | 77,218 | 772,182 | 77,218 |

(a) Share options

On 29 May 2003, the Company adopted a share option scheme under which the Directors may, at their discretion, invite any person who has contributed or will contribute to the Group to take up options at a nominal consideration of HK\$10 for each lot of share options granted. Detail information of the share option scheme is disclosed in the paragraph headed “Information Relating to the Option Scheme” in the “Report of the Directors” section of this annual report.

24. SHARE CAPITAL (Cont'd)**(a) Share options (Cont'd)**

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

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

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

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

25. RESERVES**(a) Group**

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

25. RESERVES (Cont'd)**(b) Company**

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

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

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities, issued share capital and share premium account.

- (d) At 31 December 2006, the aggregate amount of reserves available for distribution to shareholders of the Company was approximately HK\$271,630,000 (2005: HK\$95,289,000).

26. BORROWINGS

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

(a) Banking facilities

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

- (i) fixed deposits of the Group of approximately HK\$36,994,000 (2005: HK\$5,000,000), including that of the Company of approximately HK\$5,000,000 (2005: HK\$5,000,000);
- (ii) Leasehold land and buildings and investment properties with carrying amounts of approximately HK\$6,737,000 (2005: HK\$8,753,000) and HK\$290,769,000 (2005: HK\$236,299,000) respectively;
- (iii) properties under development with carrying amounts of approximately HK\$308,836,000 (2005: Nil); and
- (iv) corporate guarantees given by the Company.

26. BORROWINGS (Cont'd)

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

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

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

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

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

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

27. DEFERRED TAX

The movement on the deferred tax assets is as follows:

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

The movement on the deferred tax liabilities is as follows:

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

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

28. TRADE AND OTHER PAYABLES

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

28. TRADE AND OTHER PAYABLES (Cont'd)

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

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

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

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

(b) Provisions

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

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

29. PENSION OBLIGATIONS

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

A defined contribution pension scheme is provided to certain eligible employees (“Employees”) employed by the Group. The Group is required to make monthly contributions to the scheme at 5% of the Employees’ monthly salary. Employees under the defined contribution scheme are entitled to 100% of the employer’s contributions and the accrued interest upon retirement or upon leaving the Group after completing ten years of service from the date of joining the Group, or at a scale of between 20% and 90% after completing at least two but less than ten years of service from the date of joining the Group.

Under the MPF scheme, each of the Hong Kong subsidiaries of the Group and those employees not eligible to join the defined contribution pension scheme make monthly contributions to the MPF at 5% of the employees’ cash income as defined under the MPF legislation. Contributions by both of the Hong Kong subsidiaries and their employees are subject to a maximum of HK\$1,000 per month per employee and thereafter contributions are voluntary and are not subject to any limitation. The mandatory contributions under the MPF are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees. In addition to the mandatory contribution, employees are entitled to 100% of the employers’ voluntary contributions to the fund plus investment earnings upon leaving employment after completing ten years of service, or upon retirement after attaining the retirement age notwithstanding the number of years of service, or upon death or ceasing to be an employee due to total incapacity. Employees are also entitled to the employers’ voluntary contributions to the fund plus investment earnings calculated at a scale of between 20% and 90% after completing a period of service of at least two but less than ten years.

The Group’s contributions to the pension scheme and the MPF scheme are expensed as incurred. Contributions to the pension scheme and MPF scheme are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. Forfeited contributions totalling approximately HK\$75,000 (2005: HK\$57,000) were utilised during the year and there were no unutilised forfeited contributions available as at 31 December 2006.

As stipulated by rules and regulations in the PRC, the Group contributes to a state-sponsored retirement plan for its employees in the PRC as determined by the local government. The Group is required to contribute to the plan at a rate ranging from 10% to 22% of the basic salary of the PRC employees in addition to contributions by employees at a rate of 8% of the basic salary as specified by the local government, and the Group has no further obligations for the actual payment of the pensions or post-retirement benefits beyond the annual contributions made.

30. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

31. CONTINGENT LIABILITIES

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

32. COMMITMENTS

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

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

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

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

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

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

32. COMMITMENTS (Cont'd)

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

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

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

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

33. RELATED PARTY TRANSACTIONS

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

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

(a) Transactions with related parties

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

33. RELATED PARTY TRANSACTIONS (Cont'd)**(b) Balances with related parties**

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

(c) Key management compensation

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

notes:

- (i) Details of the construction project management agreement dated 29 July 2004 entered into between a subsidiary and a fellow subsidiary of the Company have been published in the Company's announcement dated 29 July 2004. The transaction constituted a connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- (ii) As China Minmetals is a state-owned enterprise, the government of the PRC (the "PRC Government") is considered as the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to China Minmetals, directly or indirectly controlled by the PRC Government are also considered as related parties of the Group. Since many state-controlled enterprises have multi-layered and diversified corporate structure and the structure may also change over time as a result of transfers and privatisation programmes, to balance the cost and benefit in making disclosure, the Group has only disclosed material transactions with such state-controlled enterprises.
- (iii) The transactions constituted continuing connected transactions as defined in the Listing Rules.
- (iv) The short-term loans from a fellow subsidiary made on 11 January 2006 and 20 March 2006, for working capital purposes to a subsidiary of the Company for a term of 1 year bearing interest at the rate of 6.14% per annum, are secured by corporate guarantees from Minmetals HK. The transactions constituted connected transactions as defined in the Listing Rules.

34. EVENTS AFTER THE BALANCE SHEET DATE

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

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

GROUP PROPERTIES

1. MAJOR PROPERTIES HELD FOR INVESTMENT

| Location | Usage | Lease term |
|---|-------------|------------|
| ONFEM Tower, 29 Wyndham Street, Central, Hong Kong Inland Lot No. 1005 | Commercial | Long |
| Flat D on 19 th Floor, Tai Yuen Court, No. 38 Tai Yuen Street, Wanchai, Hong Kong | Residential | Long |
| Unit 6 on 8 th Floor of Block 2, Heng Fa Chuen, No. 100 Shing Tai Road, Hong Kong | Residential | Long |
| Unit 611 on 6 th Floor, Block N, Kornhill, Nos. 14-16 Hong On Street, Quarry Bay, Hong Kong | Residential | Long |
| Unit 2603 on 26 th Floor, Block Q, Kornhill, Nos. 6-8 Hong On Street, Quarry Bay, Hong Kong | Residential | Long |

2. MAJOR PROPERTIES UNDER DEVELOPMENT

| Location | Usage | Site area/ gross floor area | Group's interest | Expected completion date |
|--|-------------|--------------------------------|---------------------|-----------------------------|
| | | sqm | | |
| At the junction of Haijing Road and Haizhou Road, Jida, Xiangzhou District, Zhuhai, Guangdong Province, the PRC | Residential | 16,454/89,000 | 100% | 4Q 2007 |
| At the junction of Xue Si Road and Xue Qi Road, Science Park, Jiangning District, Nanjing, the PRC | Residential | 310,283/277,700 | 100% | 4Q 2010 |

FIVE-YEAR FINANCIAL SUMMARY

| | 2006 HK\$'000 | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|------------------|------------------|------------------|
| Results | | | | | |
| Revenue | 303,085 | 231,322 | 86,605 | 160,941 | 332,168 |
| Operating profit/(loss) | 108,233 | 25,090 | 87,576 | (32,334) | (128,522) |
| Finance costs | (948) | (583) | (1,385) | (4,860) | (7,703) |
| Profit/(loss) before tax | 107,285 | 24,507 | 86,191 | (37,194) | (136,225) |
| Income tax | (1,440) | 3,642 | (1,082) | (95) | (363) |
| Profit/(loss) for the year | 105,845 | 28,149 | 85,109 | (37,289) | (136,588) |
| Profit/(loss) attributable to: | | | | | |
| Equity holders of the Company | 105,845 | 28,149 | 85,109 | (35,739) | (136,854) |
| Minority interests | - | - | - | (1,550) | 266 |
| Assets and liabilities | | | | | |
| Non-current assets | 339,404 | 309,788 | 286,360 | 252,196 | 259,105 |
| Current assets | 935,762 | 528,647 | 449,093 | 524,806 | 680,859 |
| Total assets | 1,275,166 | 838,435 | 735,453 | 777,002 | 939,964 |
| Capital and reserves attributable to equity holders of the Company | 817,829 | 600,034 | 561,060 | 474,707 | 499,058 |
| Minority interests | - | - | - | 25,033 | 26,491 |
| Total equity | 817,829 | 600,034 | 561,060 | 499,740 | 525,549 |
| Non-current liabilities | 105,866 | 7,325 | 7,039 | 12,154 | 13,805 |
| Current liabilities | 351,471 | 231,076 | 167,354 | 265,108 | 400,610 |
| Total liabilities | 457,337 | 238,401 | 174,393 | 277,262 | 414,415 |
| Total equity and liabilities | 1,275,166 | 838,435 | 735,453 | 777,002 | 939,964 |

GLOSSARY OF TERMS

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|------------------------|---|
| “Board” | the board of directors of the Company |
| “Brena” | Brena Company Limited |
| “Bye-laws” | Bye-laws of the Company |
| “Cheemimet” | Cheemimet Finance Limited |
| “CG Code” | Code on Corporate Governance Practices |
| “China Minmetals” | China Minmetals Corporation |
| “Company” | ONFEM Holdings Limited |
| “Director(s)” | director(s) of the Company |
| “EEL” | Enful Engineering Limited |
| “Enful” | Enful Holdings Limited and its subsidiaries |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollars |
| “Hong Kong” or “HKSAR” | The Hong Kong Special Administrative Region of the PRC |
| “Jaeger” | Jaeger Oil & Chemical Holdings Limited and its subsidiaries |
| “June Glory” | June Glory International Limited |
| “Laguna Bay Project” | the property development project in Nanjing, the PRC |
| “Listing Rules” | Rules Governing the Listing of Securities on the Stock Exchange |
| “Macau” | The Macau Special Administrative Region of the PRC |
| “Minmetals Finance” | Minmetals Finance Company Limited |
| “Minmetals HK” | China Minmetals H.K. (Holdings) Limited |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers |

| | |
|------------------------------|---|
| “Option Scheme” | the share option scheme adopted by the Company on 29 May 2003 |
| “PRC” | the People’s Republic of China |
| “PwC” | PricewaterhouseCoopers |
| “RMB” | Renminbi |
| “SFO” | Securities and Futures Ordinance |
| “Shareholder(s)” | shareholder(s) of the Company |
| “SJQ” | Shanghai Jin Qiao Condo Decoration Engineering Co., Ltd. |
| “sqm” | square metres |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Texion” | Texion Development Limited |
| “The Grand Panorama Project” | the property development project in Zhuhai, the PRC |
| “US\$” | United States dollars |
| “ZOBHP” | Zhuhai (Oriental) Blue Horison Properties Company Limited |