OPERATIONS REVIEW

For the year ended 31st December, 2006, the Group recorded a turnover of HK$616,717,000 (2005: HK$376,521,000) and a gross profit of HK$41,336,000 (2005: HK$21,922,000). The sharp increases in the Group's turnover and gross profit were principally due to the significant business growth of the Group's core operations, namely, power generation and iron ore trading.

Group's Operations

During the year, the Group was principally engaged in power generation, iron ore trading, provision of finance, property investment and management and securities brokerage and investment.

The Group's power plant operation currently comprising two coal-fired power plants in Sanmenxia City, Henan Province, the People's Republic of China (the "PRC") with each has an installed capacity of 50 megawatts. For 2006, the two power plants generated a total on-grid electricity sale of about 630 million kilowatt-hours (2005: 450 million kilowatt-hours), translating into a total revenue of HK$173,821,000 (2005: HK$117,274,000). The increases in on-grid electricity sale and revenue by about 40% and 48% respectively were primarily due to the additional contribution from the newly-constructed power plant which has commenced its commercial operation since the third quarter of 2005. The operating profit contributed by this operation was HK$16,825,000 (2005: HK$3,156,000), increased by about 4.3 times when compared to last year.

The Group's iron ore trading operation continued to record operating profit in 2006. The turnover of the operation was HK$342,434,000 (2005: HK$248,098,000), rose by 38% when compared to last year mainly due to the increased volume of goods traded by the operation. The profit of the operation was HK$759,000 (2005: HK$1,950,000), decreased by 61% from last year mainly because expenditures related to a shipping dispute settlement were incurred. The outlook for the iron ore market in China, where the Group's customers are located, remains positive and management expects the results of the operation will improve in 2007.

During the year, the average balance of loans advanced to customers was at a similar level to 2005, as a result, interest income generated by the Group's financing operation of HK$3,419,000 (2005: HK$3,495,000) was about the same as last year.

The turnover of the property operation decreased to HK$1,087,000 (2005: HK$3,279,000) when compared to last year as the Group had disposed of its investment properties in Yuen Long in May 2006. Certain renovation and repair works were conducted before the disposal of the property which mainly caused the operation to incur an operating loss of HK$2,436,000.

The turnover of the brokerage and securities investment operation increased to HK$95,956,000 (2005: HK$4,375,000) for the current year mainly as a result of its increased activity in trading of securities. A loss of HK$11,045,000 (2005: HK$4,683,000) was incurred by the operation which mainly comprised administrative overheads and unrealized holding loss of listed securities.

Jointly Controlled Entity

The Group's 30% owned jointly controlled entity, Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Hong Qiao"), which owns a department store in Shanghai, the PRC, continued to perform well in 2006. The business strategy adopted by the management of Hong Qiao in increasing its market share and boosting its sales continued to be highly successful. In 2006, the turnover of Hong Qiao reached its new record high of HK$526,834,000 (2005: HK$478,261,000), representing a year-on-year growth of about 10%. The Group's share of profit of Hong Qiao, as a result of its strong sales and profitability growth, also rose by 80% to HK$7,782,000 (2005: HK$4,332,000). As income level of the Shanghai population is on the rise and continuous growth in consumer spending is expected, the Group remains optimistic about the results of Hong Qiao in coming years.

Associate

The Group's associate, Xi'an Gaoxin Hospital Co., Ltd. ("Gaoxin Hospital"), is principally engaged in providing medical consultation, health care and related consultation services through a general hospital it owns in Xian, the PRC. It also has investments in natural resources project in the PRC. The Group's share of loss of Gaoxin Hospital was HK$32,123,000 (2005: HK$41,421,000) for the year. In April 2007, the Group decided to dispose of its interest in Gaoxin Hospital for a consideration of HK$150,000,000. The reasons for the disposal are that the associate had been making significant losses for the past financial years and that the Group considered it is a good opportunity to realize this investment for cash. An impairment loss of HK$111,497,000 was recognized by the Group in 2006 by writing down the carrying value of this investment approximate to the fair value of the deferred consideration.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 31st December, 2006, the Group had current assets of HK$278,922,000 (2005: HK$196,155,000) and liquid assets comprising bank balances and marketable Hong Kong listed securities totaled HK$7,958,000 (excluding pledged bank deposits of HK$25,003,000) (2005: HK$26,595,000).

At the balance sheet date, total bank and other borrowings amounted to HK$266,810,000 (2005: HK$306,078,000) and a majority of such borrowings was raised to finance the Group's power generation operation. Of the total bank and other borrowings, about 92% was due within one year and 8% was due after one year but not exceeding two years. In terms of currency denomination, about 74% of the balance was denominated in Renminbi with the rest in Hong Kong dollars. In terms of interest rate, about 22% and 78% of the total balance was bearing floating and fixed interest rate respectively.

The Group was in net current liabilities of HK$194,103,000 at 31st December, 2006 (2005: HK$199,391,000). For bank and other borrowings of HK$246,310,000 that were classified as current liabilities at year end, the Group have obtained consent from four financial institutions subsequent to year end that credit facilities concerned of approximately HK$63,000,000 in total will be renewed for another year. Moreover, the Group has unutilized standby loan facilities of HK$80,000,000 granted by certain financial institutions to meet short term funding needs when required.

There was no material change in the issued share capital of the Company during the year. At 31st December, 2006, the shareholders' funds of the Group was HK$262,650,000 (2005: HK$473,142,000), equivalent to a consolidated net asset value of about HK$2.2 (2005: HK$3.9) (the figures have been adjusted to take into account the effect of share consolidation on 23rd January, 2007) per share of the Company. As of the year end date, gearing ratio calculated on the basis of the Group's bank and other borrowings of HK$266,810,000 over total assets of HK$761,367,000 was at the moderate level of 35%.

With the amount of liquid assets on hand and credit facilities available, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimized via balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the exposure to foreign exchange risks is not significant and no hedging measure has been undertaken by the Group.

Pledge of Assets

At 31st December, 2006, the Group's property, plant and equipment and bank deposits with an aggregate value of HK$184,201,000 were pledged to secure credit facilities granted to the Group.

At 31st December, 2006, the Group's equity interest in a subsidiary which in turns holds the interest in Hong Qiao was pledged to secure a credit facility of HK$50,000,000 granted to the Group.

The Group entered into a long-term loan agreement with a bank during the year ended 31st December, 2004 pursuant to which a subsidiary of the Group has pledged its rights in collection of electricity tariff to a bank to secure banking facilities granted to the Group.

Capital Commitments

At 31st December, 2006, the Group had a commitment of HK$1,147,000 primarily in relation to acquisitions of fixed assets for its power generation operation.

Contingent Liabilities

At 31st December, 2006, a financial guarantee of HK$4,000,000 was given to a bank by a subsidiary of the Company in respect of banking facilities granted to its supplier. In addition, the share of contingent liabilities of the associate, Gaoxin Hospital, for financial guarantees given to banks in respect of banking facilities utilized by certain third parties was approximately HK$36,106,000.

EMPLOYEES AND REMUNERATION POLICY

At 31st December, 2006, the Company and its subsidiaries had about 410 employees in Hong Kong and the Mainland. Total staff costs incurred during the year, including director's remuneration, was HK$18,731,000 and was at similar level to last year (2005: HK$19,876,000). The Group generally remunerates its employees with reference to their qualifications, experience and work performance as well as to market benchmarks. Benefits offered by the Group to its employees included subsidised training programme, share option schemes, discretionary bonus, provident fund scheme as well as medical insurance.