

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:

					Number of share options			
Category of participant		Date of grant	Exercise period	Exercise price	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

1. 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