1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange. Its immediate holding company is Top Horizon. The Directors consider Wai Kee, also incorporated in Bermuda as an exempted company with limited liability and its shares being listed on the Stock Exchange as the Company's ultimate holding company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its significant subsidiaries, associates and jointly controlled entities are set out in notes 21, 22 and 46 respectively.

2. BASIS OF PREPARATION

On 23 April 2004, the Company issued 5,987,000,000 ordinary shares of HK$0.01 each and 3,000,000,000 convertible preference shares of HK$0.01 each to Top Horizon, which is a wholly owned subsidiary of Wai Kee, for a total consideration of HK$89,870,000. The consideration was satisfied by cash of HK$29,870,000 and by injection of Top Tactic Holdings Limited ("Top Tactic") and its subsidiaries (collectively "Top Tactic Group") valued at HK$60,000,000. Top Tactic was a then wholly owned subsidiary of Top Horizon.

The Company obtains ownership of Top Tactic by the issue of the voting shares as consideration and this has resulted in the control of the combined enterprise being transferred to Top Horizon. Under accounting principles generally accepted in Hong Kong, the transactions were accounted for as a reverse acquisition. Top Tactic was treated as the acquirer and the Company and its subsidiaries (collectively the "Former Group") immediately before the issue of the voting shares were deemed to have been acquired by Top Tactic.

2. BASIS OF PREPARATION (Continued)

Top Tactic applied the acquisition method to account for the acquisition of the Former Group. In applying the acquisition method, the identifiable assets and liabilities of the Former Group were recorded on the balance sheet of the combined enterprise at their fair values at 23 April 2004. Goodwill arising on acquisition was determined as the excess of the purchase consideration deemed to be incurred by Top Tactic over the fair value of the separable assets and liabilities of the Former Group at 23 April 2004. Net assets acquired were as follows:

	HK$'000
Property, plant and equipment	51
Debtors, deposits and prepayments	302
Creditors and accrued charges	(213)
	140
Goodwill *(Note 19)*	31,975
Total consideration	32,115
Satisfied by:	
Net assets of a subsidiary transferred to minority interests	2,115
Issue of convertible preference shares	30,000
	32,115

A dividend of HK$22,000,000 was declared by Top Tactic prior to completion of the restructuring ("Completion") but it will not be paid unless the Directors of the Company, when deciding to make the payment of the dividend, have consulted their financial advisers and are satisfied that the Group will remain solvent for at least 12 months after such payment. "Solvent" means that the Group will have a positive net asset value at the time of and after paying the dividend, and will be able to meet payments and debts in full as they fall due notwithstanding the payment of the dividend.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates or jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented.

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. On 1 January 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$1,421,000 with a corresponding decrease in the cost of goodwill (see note 19). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Additionally, the Group also eliminated the carrying amount of the related accumulated amortisation of HK$1,455,000 with a corresponding decrease in the cost of goodwill attributable to an associate. Such goodwill is subsequently reclassified upon acquisition of additional interests in that associate during the year (see note 21). Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3A for the financial impact).

3. **APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)**

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Jointly Controlled Entities" which allows an entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interests in jointly controlled entities. Accordingly, no prior year adjustment has been required.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Investments in debt and equity securities

Prior to 1 January 2005, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its investments in debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be measured reliably are stated at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its investments in equity securities in accordance with the transitional provisions of HKAS 39. As a result, investment securities classified under non-current assets with a carrying amount of HK$28,302,000 and other investments classified under current assets with a carrying amount of HK$55,430,000 have been reclassified to available-for-sale investments and held-for-trading investments (at fair value through profit or loss) on 1 January 2005 respectively (see note 3A for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets and financial liabilities other than investments in debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than investments in debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, non-current interest-free amounts due to associates were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free amounts due to associates are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of amounts due to associates as at 1 January 2005 have been decreased by HK$10,662,000 in order to state the amounts due to associates at amortised cost in accordance with HKAS 39, with the corresponding adjustment to decrease the interests in associates as at 1 January 2005 by HK$10,662,000 which represents the deemed distributions from associates. As the repayment schedule of the amounts due to associates extends through to 2027, there has been no material effect on the results of the Group for the current and prior accounting year (see note 3A for the financial impact).

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005 **HK$'000**	2004 HK$'000
Non-amortisation of goodwill	**2,396**	–
Increase (decrease) in share of results of jointly controlled entities	**3,289**	(2,491)
(Increase) decrease in income taxes	**(3,289)**	2,491
Increase in profit for the year	**2,396**	–

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Retrospective adjustments HK$'000 HKAS 1	As at 31 December 2004 (restated) HK$'000	Prospective adjustments HK$'000 HKAS 39	As at 1 January 2005 (restated) HK$'000
Balance sheet items					
Interests in associates	4,535	–	4,535	(10,662)	(6,127)
Investment securities	28,302	–	28,302	(28,302)	–
Available for sales investments	–	–	–	28,302	28,302
Held-for-trading investments	–	–	–	55,430	55,430
Other investments	55,430	–	55,430	(55,430)	–
Amounts due to associates	(33,159)	–	(33,159)	10,662	(22,497)
Total effects on assets and liabilities	55,108	–	55,108	–	55,108
Minority interests	–	5,450	5,450	–	5,450
Total effect on equity	–	5,450	5,450	–	5,450
Minority interests	5,450	(5,450)	–	–	–

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated HK$'000	HKAS 1 HK$'000	As restated HK$'000
Ordinary share capital	7,808	–	7,808
Translation reserve	1,548	–	1,548
Retained profits	54,438	–	54,438
Minority interests	–	(317)	(317)
Total effects on equity	63,794	(317)	63,477

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition.

4. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Goodwill (Continued)

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate or jointly controlled entity.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments in associates (Continued)

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the ordinary course of business, net of discounts and sales related taxes.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the year. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the terms of the relevant leases.

Property, plant and equipment

Property, plant and equipment, other than property and plant under construction, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than property and plant under construction over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	$33^1/_3$% or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

Property and plant under construction is stated at cost less any impairment losses. Depreciation commences when they are available for use and reclassified to the appropriate category of property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, contract costs are recognised in the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as the contract revenue recognized. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amount due from customers for contract work" or "amount due to customers for contract work", as appropriate. Amounts billed, but not yet paid by the customers, for work performed on contracts are included in the balance sheet under "Debtors, deposits and prepayments".

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are classified as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustment arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Schemes") are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

4. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amounts due from customers for contract work, debtors, deposits and amounts due from related companies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including amounts due to customers for contract work, creditors and accrued charges, amounts due to related companies, amounts due to minority shareholders and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses (other than goodwill, intangible assets with indefinite useful lives (see the accounting policies in respect of goodwill and intangible assets above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investment readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 4, management has made the following judgments that have a significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$27 million. The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of three to ten years, and after taking into account of their estimated residual value, commencing from the date the equipment is available for use. The estimated useful life and dates that the Group places the equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment loss on irrecoverable debts/Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Recoverability of intangible assets arising from acquisition of a subsidiary

During the year, management considered the recoverability of the intangible assets (i.e. construction licenses with indefinite useful lives) arising from the acquisition of a subsidiary, which is included in the consolidated balance sheet at 31 December 2005 at HK$32,858,000. The construction projects continue to progress in a very satisfactory manner, and the recent new projects successfully secured by the Group have reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licenses. However, increased market competition has caused management to reconsider its assumptions regarding future market shares and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill is HK$30,554,000. Details of the impairment loss calculation are disclosed in note 20.

Income taxes

As at 31 December 2005, a deferred tax asset of HK$15,397,000 in relation to unused tax losses has not been recognised in the Group's balance sheet due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are greater than expected, a material deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such future profits are recorded.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Construction contracts

For the year ended 31 December 2005, the Group recognised losses from construction contracts of HK$39,609,000, which were derived from the latest available budgets of the construction contracts which were prepared by the management of the Group based on the overall performance of each construction contact.

For the year ended 31 December 2005, the Group's shared profits of its jointly controlled entities of HK$56,696,000, which were principally derived from the construction contracts being carried out by the jointly controlled entities. These figures were also derived from the latest available budgets of the construction contracts which were prepared by the management of respective jointly controlled entity and the Group that based on the overall performance of each construction contract.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, equity investments, short term deposits and cash, creditors, borrowings and amounts due from(to) related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 32). The Group currently does not have a cash flow interest rate hedging policy as the management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, the management monitors closely the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(ii) Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The revenue of the Group is predominately in Hong Kong dollars and the borrowings of the Group are also denominated in Hong Kong dollars. The exposure of the Group to foreign currency risk is considered to be minimal.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group had delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high-credit-ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(iv) Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

(v) Liquidity risk

The objective of the Group is to maintain a balance between the continuity of funding and the flexibility through the use of bank borrowings and advances from related companies. In addition, banking facilities have been put in place for general funding purposes.

7. TURNOVER

Turnover represents the revenue on construction contracts recognised during the year.

	2005	2004
	HK$'000	HK$'000
Group turnover	**544,960**	368,731
Share of turnover of jointly controlled entities		
Hong Kong	**114,188**	287,936
Taiwan	**11,035**	75,704
Other regions in the People's Republic of China (the "PRC")	**26,184**	8,391
	696,367	740,762

8. SEGMENTAL INFORMATION

(a) Business segments

The Group is mainly engaged in civil engineering work. Accordingly, no business segment analysis of financial information is provided.

(b) Geographical segments

The Group's civil construction business is principally located in Hong Kong, Taiwan, the PRC and the Middle East. The Group reports its segment information based on the geographic location of its customers and the segment information about these geographical markets is presented below:

Year ended 31 December 2005

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results					
Segment group turnover	533,786	–	–	11,174	544,960
Segment results	(23,386)	(775)	(4,125)	(1,716)	(30,002)
Unallocated net expenses					(426)
Finance costs					(3,163)
Share of results of jointly controlled entities	53,101	9,221	1,129	–	63,451
Share of results of associates	1,655	–	–	–	1,655
Profit before taxation					31,515
Income taxes					207
Profit for the year					31,722

8. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

Year ended 31 December 2004

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000 (restated)
Results					
Segment group turnover	342,234	26,497	–	–	368,731
Segment results	(102,593)	1,836	(3,619)	–	(104,376)
Unallocated net income					6,668
Finance costs					(195)
Share of results of jointly controlled entities	145,463	25,339	2,621	–	173,423
Share of results of associates less goodwill amortised	904	–	–	–	904
Amortisation of goodwill of subsidiaries					(1,421)
Profit before taxation					75,003
Income taxes					(19,444)
Profit for the year					55,559

8. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

At 31 December 2005

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	231,780	7,107	56,248	22,167	317,302
Interests in associates	(22,029)	–	–	–	(22,029)
Interests in joint ventures	9,083	2,388	44,492	–	55,963
Other corporate assets					148,004
Total consolidated assets					499,240
Liabilities					
Segment liabilities	208,732	1,704	6,343	1,204	217,983
Other corporate liabilities					127,002
Total consolidated liabilities					344,985

For the year ended 31 December 2005

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Additions in property, plant and equipment	422	–	8,008	548	8,978
Depreciation of property, plant and equipment	3,235	149	134	3,156	6,674

8. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

At 31 December 2004

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	209,003	11,306	8,450	–	228,759
Interests in associates	4,535	–	–	–	4,535
Interests in joint ventures	431	29,544	22,143	–	52,118
Other corporate assets					125,634
Total consolidated assets					411,046
Liabilities					
Segment liabilities	201,237	30,455	4,267	–	235,959
Other corporate liabilities					58,530
Total consolidated liabilities					294,489

For the year ended 31 December 2004

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Additions in property, plant and equipment	7,115	–	236	–	7,351
Depreciation of property, plant and equipment	4,004	880	58	–	4,942

9. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Other income includes:		
Service income from jointly controlled entities for management services rendered	**4,487**	–
Dividends from held-for-trading investments/other investments	**2,534**	1,396
Net foreign exchange gains	**1,424**	–
Recovery of Value Added Tax previously written off	**1,309**	–
Service income from associates for secretarial and management services rendered	**850**	–
Technical consultancy fee income	**708**	–
Gain on disposal of held-for-trading investments/other investments	**335**	932
Interests on finance lease receivables	**174**	–
Interest on bank deposits	**101**	171
Gain on disposal of property, plant and equipment, net	**30**	–
Call of performance bond given by a subcontractor	**–**	8,100
Increase in fair value of other investments	**–**	4,550
Write off of negative goodwill arising upon conversion of preference shares	**–**	385
Interest on other receivables	**–**	27

10. OTHER EXPENSE

	2005 HK$'000	2004 HK$'000
Decrease in fair value of held-for-trading investments	**3,186**	–

11. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**2,271**	195
Imputed interest expense on non-current interest free loan from a former shareholder of an acquired subsidiary	**892**	–
	3,163	195

12. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration		
Provision for the current year	**1,450**	1,200
Underprovision in prior years	**70**	–
	1,520	1,200
Depreciation	**6,674**	4,942
Less: Amount attributable to construction contracts	**–**	(902)
	6,674	4,040
Hire charges for plant and machinery	**42,548**	28,240
Less: Amount attributable to construction contracts	**(42,548)**	(28,240)
	–	–
Staff costs:		
Directors' remuneration *(Note 13)*	**8,388**	10,521
Other staff costs	**159,073**	131,122
Retirement benefits scheme contributions, excluding amounts included in Directors' remuneration and net of forfeited contributions of HK$173,000 (2004: HK$351,000)	**8,232**	5,360
	175,693	147,003
Less: Amount attributable to construction contracts	**(119,774)**	(76,168)
	55,919	70,835
Operating lease rentals in respect of land and buildings	**2,994**	1,815
Less: Amount attributable to construction contracts	**(67)**	–
	2,927	1,815
Consultancy fee paid to an associate	**11,312**	–
Loss on disposal of property, plant and equipment, net	**–**	262
Share of taxes of jointly controlled entities (included in share of results of jointly controlled entities)	**(3,289)**	2,491

13. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the seven (2004: seven) Directors were as follows:

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Zen Wei Peu, Derek	–	2,488	2,000	12	4,500
Yu Sai Yen	–	2,060	950	153	3,163
David Howard Gem	145	–	–	–	145
Cheng Chi Pang, Leslie	145	–	–	–	145
Chow Ming Kuen, Joseph	145	–	–	–	145
Ng Chi Ming, James	145	–	–	–	145
Ho Tai Wai, David	145	–	–	–	145
Total for 2005	725	4,548	2,950	165	8,388

		Other emoluments			
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Zen Wei Peu, Derek	–	1,659	4,000	8	5,667
Yu Sai Yen	–	1,982	2,000	147	4,129
David Howard Gem	145	–	–	–	145
Cheng Chi Pang, Leslie	145	–	–	–	145
Chow Ming Kuen, Joseph	145	–	–	–	145
Ng Chi Ming, James	145	–	–	–	145
Ho Tai Wai, David	145	–	–	–	145
Total for 2004	725	3,641	6,000	155	10,521

The performance related incentive payments are determined as a percentage of the Group's profit for both years ended 31 December 2005 and 2004.

No Director waived any emoluments for both years ended 31 December 2005 and 2004.

14. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two Directors (2004: two Directors), details of whose emoluments are set out in note 13 above. The emoluments of the remaining three (2004: three) highest paid individuals were as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**3,841**	3,844
Performance related incentive payments	**1,195**	2,550
Retirement benefits scheme contributions	**224**	209
	5,260	6,603

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1

15. INCOME TAXES

	2005	2004
	HK$'000	HK$'000
		(restated)
Current tax:		
Hong Kong	**2,221**	12,506
(Over)underprovision in prior years:		
Hong Kong	**(2,567)**	5,481
Other jurisdictions	**139**	1,457
	(207)	19,444

Hong Kong Profits Tax is calculated at 17.5 per cent on the estimated assessable profit for the year.

Taxation arising in other jurisdictions are calculated at the rates prevailing in the respective jurisdictions.

15. INCOME TAXES (Continued)

Income taxes for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	**31,515**	75,003
Taxation at the applicable rate of 17.5%	**5,515**	13,126
Tax effect of share of results of associates	**(290)**	(251)
Tax effect of share of results of jointly controlled entities	**(3,581)**	792
Tax effect of expenses that are not deductible in determining taxable profit	**2,750**	4,583
Tax effect of unrecognised tax losses	**5,752**	2,763
Tax effect of income that is not taxable in determining taxable profit	**(3,553)**	(451)
(Over)underprovision in prior years	**(2,428)**	6,938
Utilisation of tax losses previously not recognised	**(2,745)**	(6,980)
Tax effect of different tax rates for companies operating in other jurisdictions	**(595)**	10
Others	**(1,032)**	(1,086)
Income taxes for the year	**(207)**	19,444

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 **HK$'000**	2004 HK$'000
Profit for the year attributable to equity holders of the parent	**30,336**	50,172
Dividends on convertible preference share capital	**(300)**	(200)
Earnings for the purposes of basic earnings per share	**30,036**	49,972
Effect of dilutive potential ordinary shares:		
Dividends on convertible preference share capital	**300**	200
Earnings for the purposes of diluted earnings per share	**30,336**	50,172

	Number of Shares **'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**781,408**	724,588
Effect of dilutive potential ordinary shares:		
Convertible preference share capital	**150,000**	103,279
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**931,408**	827,867

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Property and plant under construction HK$'000 *(Note)*	Total HK$'000
COST							
At 1 January 2004	7,631	18,444	19,825	7,654	84,260	–	137,814
Exchange realignment	–	253	51	148	641	–	1,093
Acquisition of subsidiaries	–	–	–	51	–	–	51
Additions	–	–	520	28	6,752	–	7,300
Disposals	–	(4,295)	(207)	(3,074)	(227)	–	(7,803)
At 1 January 2005	7,631	14,402	20,189	4,807	91,426	–	138,455
Exchange realignment	–	29	33	9	–	–	71
Acquisition of a subsidiary	46	–	191	–	–	–	237
Additions	–	–	237	407	572	7,525	8,741
Disposals	–	–	(30)	(72)	(3,014)	–	(3,116)
At 31 December 2005	**7,677**	**14,431**	**20,620**	**5,151**	**88,984**	**7,525**	**144,388**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004	6,593	15,764	19,064	6,531	64,780	–	112,732
Exchange realignment	–	162	38	97	292	–	589
Provided for the year	589	805	364	170	3,014	–	4,942
Eliminated on disposals	–	(2,714)	(207)	(2,072)	(139)	–	(5,132)
At 1 January 2005	7,182	14,017	19,259	4,726	67,947	–	113,131
Exchange realignment	–	28	24	9	–	–	61
Provided for the year	489	167	425	53	5,540	–	6,674
Eliminated on disposals	–	–	(25)	(66)	(2,863)	–	(2,954)
At 31 December 2005	**7,671**	**14,212**	**19,683**	**4,722**	**70,624**	**-**	**116,912**
CARRYING VALUES							
At 31 December 2005	**6**	**219**	**937**	**429**	**18,360**	**7,525**	**27,476**
At 31 December 2004	449	385	930	81	23,479	–	25,324

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note: Pursuant to the Build-Operate-Transfer Agreement ("BOT Agreement") entered into in April 2005 between Wuxi Qianhui Sewage Treatment Co., Ltd ("Wuxi Qianhui"), a non-wholly owned subsidiary of the Group and the People's Government of Qian Qiao Zhen, Hui Shan District, Wu Xi City, Wuxi Qianhui was granted the right to construct and operate a sewage treatment plant for a term of 30 years. The construction cost of the sewage treatment plant is estimated to be approximately HK$42 million. The construction work of the sewage treatment plant is expected to be completed within one year upon signing the BOT Agreement and the sewage treatment plant shall commence operation thereafter.

18. INTANGIBLE ASSETS

The amount represents the fair value of the construction licenses (with indefinite useful lives) held by a subsidiary acquired by the Group during the year (the "acquired subsidiary") as set out in note 38.

The construction licenses are granted by the Environment, Transport and Works Bureau of the HKSAR to the acquired subsidiary through which the acquired subsidiary is eligible to undertake government construction contracts of all five categories of public works, namely port works, site formation, road and drainage, water works and buildings with no limitation in contract sum. The construction licenses basically have no legal life but are renewable every year as long as the acquired subsidiary is able to comply with certain provisions and requirements set out by the Environment, Transport and Works Bureau of the HKSAR throughout the relevant period.

Various studies including sensitivity analysis and market trends have been carried out by the management of the Group, which supports that the construction licenses have no foreseeable limit to the period over which the construction licenses are expected to generate net cash flows for the Group. As a result, the construction licenses are considered by the management of the Group as having an indefinite useful life because it is expected to contribute net cash flows indefinitely. The construction licenses will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding the impairment testing on intangible assets are disclosed in note 20.

19. GOODWILL

	HK$'000
COST	
Arising on reverse acquisition of the Company and at 1 January 2005	31,975
Elimination of accumulated amortisation upon the application of HKFRS 3 *(Note 3)*	(1,421)
At 31 December 2005	**30,554**
AMORTISATION	
Charge for the year ended 31 December 2004 and at 1 January 2005	1,421
Elimination of accumulated amortisation upon the application of HKFRS 3 *(Note 3)*	(1,421)
At 31 December 2005	**–**
CARRYING VALUES	
At 31 December 2005	**30,554**
At 31 December 2004	30,554

Particulars regarding impairment testing on goodwill are disclosed in note 20.

Until 31 December 2004, goodwill was being amortised using the straight-line method over its estimated useful life of 15 years.

20. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

As explained in note 8, the Group is mainly engaged in civil engineering work which is the only business segment of the Group. For the purposes of impairment testing, goodwill set out in note 19 has been allocated to the underlying cash generating units ("CGUs"), which represent subsidiaries, associates and jointly controlled entities of the Group, except for a subsidiary which was acquired during the year and holds the construction licenses granted by the Environment, Transport and Works Bureau of the HKSAR.

For the purpose of impairment testing, intangible asset with indefinite useful lives set out in note 18 have been allocated to the CGU of the remaining subsidiary acquired during the year, which holds the construction licences granted by the Environment, Transport and Works Bureau of the HKSAR and through which it is eligible to undertake government construction contracts for all five categories of public works.

During the year ended 31 December 2005, the management of the Group determined that there are no impairments of any of its CGUs containing goodwill and intangible assets.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years, and a discount rate of 10%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

21. INTERESTS IN ASSOCIATES

	2005 **HK$'000**	2004 HK$'000
Cost of investment in unlisted associates	**4**	–
Share of post-acquisition losses *(Note a)*	**(22,033)**	(4,594)
Goodwill	**–**	9,129
	(22,029)	4,535

21. INTERESTS IN ASSOCIATES (Continued)

Details of the incorporated associates of the Group as at 31 December 2005 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued ordinary capital held indirectly by the Company %	Principal activities
Hong Kong Landfill Restoration Group Limited	Hong Kong	34.5	Civil engineering
Kong On Waste Management Limited	Hong Kong	50.0	Environmental and waste management

Movements in the goodwill included in interests in associates is as follows:

	2005 HK$'000
GROSS AMOUNT	
At 1 January 2004 and 31 December 2004	**10,584**
Elimination of accumulated amortisation upon the application of HKFRS 3 *(Note 3)*	**(1,455)**
Reclassification upon acquisition of additional interests in an associate *(Note b)*	**(9,129)**
At 31 December 2005	**–**
AMORTISATION	
Charge for the year ended 31 December 2004 and at 1 January 2005	**1,455**
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 3)	**(1,455)**
At 31 December 2005	**–**
CARRYING VALUES	
At 31 December 2005	**–**
At 31 December 2004	**9,129**

21. INTERESTS IN ASSOCIATES (Continued)

Until 31 December 2004, goodwill was being amortised using the straight-line method over its estimated useful life of 15 years.

Notes:

(a) The Group has contractual obligations to share the net liabilities of certain associates.

(b) As set out in note 38, the Group acquired additional interests in an associate during the year resulting in the associate becoming a subsidiary. The share of net assets of this associate amounting to HK$17,561,000 were reclassified to relevant items in the consolidated balance sheet upon completion.

The summarised financial information in respect of the Group's associates which are accounted for using the equity method is set out below:

	2005 **HK$'000**	2004 HK$'000
Total assets	**88,604**	98,971
Total liabilities	**(132,663)**	(108,021)
Net liabilities	**(44,059)**	(9,050)
Group's share of net liabilities of associates	**(22,029)**	(4,594)
Turnover	**145,548**	185,312
Profit for the year	**1,741**	2,865
Group's share of results of associates for the year	**1,655**	1,433

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 **HK$'000**	2004 HK$'000
Share of net assets of jointly controlled entities	**55,963**	52,118

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

At 31 December 2005, the Group had interests in the following principal jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
Balfour Beatty-Zen Pacific Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated	PRC	25	Civil engineering
Dragages (HK) Joint Venture	Unincorporated	Hong Kong	14 *(Note)*	Civil engineering
Kier-STAMsteel Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Kier/Zen Pacific Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated	PRC	51	Road construction
Taiwan Track Partners Joint Venture	Unincorporated	Taiwan	8 *(Note)*	Civil engineering
Taiwan Track Partners Rheda Joint Venture	Unincorporated	Taiwan	8 *(Note)*	Civil engineering
常州利駿建築工程有限公司	Incorporated	PRC	40	Property construction

Note: The Group holds less than 20% interests in these entities. However, under the joint venture agreements, the entities are jointly controlled by the Group and the other significant joint venture partners. Therefore, these entities are classified as jointly controlled entities.

The above table lists the jointly controlled entities of the Group which, in the opinion of the Directors, principally affect the results for the year or constitute a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particulars of excessive length.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

Share of results attributable to the Group

	2005 HK$'000	2004 HK$'000
Turnover	**151,407**	372,031
Other income	**2,051**	3,842
Total revenue	**153,458**	375,873
Total expenses	**(93,296)**	(199,959)
Profit before taxation	**60,162**	175,914
Income taxes	**3,289**	(2,491)
Profit for the year	**63,451**	173,423

Share of assets and liabilities attributable to the Group

	2005 HK$'000	2004 HK$'000
Non-current assets	**18,243**	14,852
Current assets	**206,394**	257,005
Current liabilities	**(168,674)**	(219,643)
Non-current liabilities	**–**	(96)
Net assets	**55,963**	52,118

23. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Unlisted equity securities, at cost	**32,118**	29,102
Less: Impairment loss recognised	**(800)**	(800)
	31,318	28,302
Analysed for reporting purposes as:		
Investment securities *(Note 3)*	**–**	28,302
Non-current available-for-sale investments	**3,016**	–
Current available-for-sale investments *(Note)*	**28,302**	–
	31,318	28,302

The above unlisted investments represents investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

Note: The amount represents an 4.41% equity investment in the registered capital of Shanghai Environment Investment Company Limited ("SEICL"), a company established in the PRC. SEICL is an investment holding company whose investment targets are companies undertaking waste management projects in the PRC, including operating incinerators and landfills. The 4.41% equity investment in SEICL is pledged to another equity holder of SEICL to secure a loan of HK$28,302,000 as disclosed in note 31.

During the year, the Group decided to divest its entire equity interest in SEICL and an active programme was initiated to identify potential buyers. The Group expects to divest the investment within twelve months of the balance sheet date and accordingly the amount is classified under current assets as "available-for-sale investments" in accordance with HKAS 39. No adjustment has been made to the carrying amount of the investment in SEICL as, in the opinion of the Directors, the cost less any identified impairment for the investment in SEICL should not be less than its existing carrying amount.

24. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**834**	–	**714**	–
In the second to fifth year inclusive	**695**	–	**660**	–
	1,529	–	**1,374**	–
Less: Unearned finance income	**(155)**	–	**–**	–
Present value of minimum lease payments receivables	**1,374**	–	**1,374**	–
Less: Finance lease receivables recoverable within next twelve months			**714**	–
Finance lease receivables recoverable after next twelve months classified as non-current			**660**	–

The Group has leased out certain of its plant and machinery under finance leases. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The effective interest rate of the above finance leases ranges from 4% to 6% per annum.

The fair value of the finance leases receivables approximates to the carrying amount of the receivables.

25. AMOUNT DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2005 HK$'000	2004 HK$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	**2,291,919**	1,421,960
Less: Progress billings	**(2,268,300)**	(1,398,805)
	23,619	23,155
Represented by:		
Due from customers included in current assets	**39,780**	33,190
Due to customers included in current liabilities	**(16,161)**	(10,035)
	23,619	23,155

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2005 HK$'000	2004 HK$'000
Trade debtors analysed by age:		
0 to 60 days	**98,904**	35,475
61 days to 90 days	**–**	–
Over 90 days	**118**	–
	99,022	35,475
Retentions receivable	**25,848**	17,575
Other debtors, deposits and prepayments	**39,524**	28,536
	164,394	81,586

The Group allows an average credit period of 60 days to its trade customers. For retentions receivable in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

The fair value of the debtors, deposits and retentions receivable approximates to the corresponding carrying amounts.

27. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount was unsecured, interest-free and had no fixed repayment terms. The fair value of the amount due from a fellow subsidiary approximated to the corresponding carrying amount.

28. AMOUNTS DUE FROM ASSOCIATES

The amounts at 31 December 2005 are unsecured, interest-free and repayable on demand.

The amounts at 31 December 2004 were unsecured, interest-free and repayable on demand except for an amount of HK$20,000,000 advanced to an associate ("Associate") by a subsidiary of the Company (the "Subsidiary") which carried interest at prime rate. The Associate agreed in writing that the Subsidiary had the right to set off the amount against any amount due to the Associate by the Subsidiary or any companies whose ultimate holding company is Wai Kee. As at 31 December 2004, HK$8,484,000 of the amount was set off against the same amount due to the Associate.

The fair value of the amounts due from associates approximates to the corresponding carrying amount.

29. HELD-FOR-TRADING INVESTMENTS/OTHER INVESTMENTS

	2005	2004
	HK$'000	HK$'000
Equity securities listed in Hong Kong at quoted market bid prices *(Note 3)*	**56,196**	55,430

Certain equity securities with market value of HK$20,255,200 were pledged to a bank to secure general banking facilities granted to the Group.

30. CREDITORS AND ACCRUED CHARGES

	2005 HK$'000	2004 HK$'000
Trade creditors analysed by age:		
0 to 60 days	**20,660**	11,899
61 to 90 days	**415**	3,094
Over 90 days	**6,305**	3,580
	27,380	18,573
Retentions payable	**22,646**	18,531
Accrued project costs	**66,545**	60,670
Other creditors and accrued charges	**35,452**	59,857
	152,023	157,631

The fair value of the creditors and accrued charges approximates to the corresponding carrying amount.

31. OTHER BORROWINGS

The amount represents the loan from an equity holder of SEICL and is secured by the Group's 4.41% equity interest in SEICL as disclosed in note 23. The loan is interest free and repayable on demand.

The fair value of other borrowings approximates to the corresponding carrying amount.

32. BANK LOANS

	2005 HK$'000	2004 HK$'000
The maturity of bank loans is as follows:		
Within one year	**37,600**	–
In the second year	**18,200**	6,600
In the third to fifth year inclusive	**35,200**	13,400
	91,000	20,000
Less: Amount due within one year shown under current liabilities	**37,600**	–
Amount due after one year	**53,400**	20,000
Secured	**18,000**	–
Unsecured	**73,000**	20,000
	91,000	20,000

All the bank loans are variable-rate borrowings which carry interest ranging from 2% to 7% (2004: 2% to 3%) per annum. Interest is repricing every six months. The Directors consider that the carrying amount of bank loans approximates their fair value.

33. AMOUNTS DUE TO ASSOCIATES

The amounts are unsecured, interest-free and have no fixed repayment terms. The associates have agreed not to demand repayment within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

The fair value of the amounts due to associates as at 31 December 2005 approximates to the corresponding carrying amount at effective interest rate of 5.4% per annum (note 3).

The amounts due to associates as at 31 December 2004 were stated at the nominal amount. The fair value of the amounts due to associates as at 31 December 2004 approximates to HK$15,867,000 at effective interest rate of 5.4% per annum.

34. AMOUNTS DUE TO JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current liabilities.

The fair value of the amounts due to jointly controlled entities approximates to the corresponding carrying amount.

35. SHARE CAPITAL

	Number of shares	**Amount**
		HK$'000
Authorised:		
Ordinary shares		
At 1 April 2004 of HK$0.01 each	8,000,000,000	80,000
Cancellation of authorised ordinary share capital *(Note b(iii))*	(7,872,860,000)	(78,729)
Increase in authorised ordinary share capital *(Note b(iv))*	16,872,860,236	168,729
Consolidation of shares *(Note (e))*	(15,300,000,236)	–
At 31 December 2004 and 2005 of HK$0.1 each	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares		
At 1 April 2004 of HK$0.01 each	508,339,764	5,083
Capital reduction *(Note b(i))*	–	(3,812)
Consolidated of shares *(Note b(ii))*	(381,254,823)	–
Issue of ordinary shares *(Note (c))*	6,187,000,000	61,870
Conversion of convertible preference shares *(Note (d))*	1,500,000,000	15,000
Consolidation of shares *(Note (e))*	(7,032,676,447)	–
At 31 December 2004 and 2005 of HK$0.1 each	781,408,494	78,141

35. SHARE CAPITAL (Continued)

Notes:

(a) The share capital of HK$7,808,000 as at 1 January 2004 represents the paid-in capital of the companies comprising Top Tactic Group as at 1 January 2004.

(b) On 23 April 2004, pursuant to the capital restructuring approved by the court of Bermuda and Hong Kong dated 16 April 2004 and 20 April 2004 respectively, the share capital of the Company was changed as follows:

i. the issued ordinary share capital of HK$5,083,000 was reduced by HK$3,812,000 to HK$1,271,000 by cancelling the paid-up capital of HK$0.01 each so that each of such issued ordinary shares shall be treated as one fully paid shares of HK$0.0025. The credit of HK$3,812,000 arising from the capital reduction was applied to eliminate an equivalent amount of the Company's accumulated losses;

ii. every four issued ordinary shares reduced pursuant to (b)(i) above were consolidated into one ordinary share of HK$0.01. Accordingly, 508,339,764 issued ordinary shares of HK$0.0025 each were consolidated into 127,084,941 issued ordinary shares of HK$0.01 each;

iii. the unissued ordinary share capital of HK$78,729,000 in the authorised ordinary share capital of HK$80,000,000 of the Company was cancelled and diminished resulting in an authorised and issued ordinary share capital of HK$1,271,000; and

iv. the authorised ordinary share capital of the Company was increased from HK$1,271,000 to HK$170,000,000 by creation of 16,872,860,236 ordinary shares of HK$0.01 each.

(c) On 23 April 2004, the Company issued 5,987,000,000 new ordinary shares of HK$0.01 each of the Company in exchange of the entire equity interest in Top Tactic Group and issued 200,000,000 new ordinary shares of HK$0.01 each of the Company to the former creditors of the Company in exchange for the discharge and waiver of all the claims against the Company.

(d) On 24 April 2004, the holder of the preference shares converted HK$15,000,000 of the preference shares in the Company (note 36).

(e) On 26 July 2004, every ten ordinary shares of the Company were consolidated into one ordinary share. The nominal value of the ordinary shares was then consolidated from HK$0.01 each share to HK$0.1 each share.

36. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
Created on 23 April 2004 *(Note (a))* and at 31 December 2004 and 2005	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
Convertible preference shares		
Issued on 23 April 2004 *(Note (a))*	3,000,000,000	30,000
Conversion into ordinary shares *(Note 35(d))*	(1,500,000,000)	(15,000)
At 31 December 2004 and 2005	1,500,000,000	15,000

Note:

(a) On 23 April 2004, the authorised share capital of the Company was increased from HK$170,000,000 to HK$200,000,000 by creation of 3,000,000,000 convertible preference shares of HK$0.01 each. On the same date, the Company issued 3,000,000,000 new convertible preference shares of HK$0.01 each for cash at par for repayment of certain liabilities of the Company.

(b) On 26 July 2004, every ten ordinary shares of the Company were consolidated into one ordinary share and the conversion price for exercise of the conversion rights attaching to the convertible preference share was increased from HK$0.01 to HK$0.1.

The preference shares shall entitle the holders thereof the right to convert their preference shares into fully-paid ordinary shares of the Company at any time after the date of issuance of the preference shares but before the seventh anniversary, into such number of fully-paid ordinary shares to be determined by the issue price of preference shares divided by the conversion price of HK$0.1 per ordinary share.

Holders of the preference shares shall be entitled to receive dividends at the rate of 2% per annum at its issue price. The holders of the preference shares shall be entitled to receive dividends prior to and in preference to the holders of the ordinary shares.

The holder of each preference share shall not have any voting rights. The preference shares shall be non-redeemable and will not be listed on any stock exchange.

37. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities recognised by the Group and movements thereon during the year and prior reporting period:

	Fair value of intangible assets
	HK$'000
At 1 January 2004 and 2005	–
Acquired on acquisition of a subsidiary *(Note 38)*	5,750
At 31 December 2005	5,750

At the balance sheet date, the Group has unutilised tax losses carried forward to offset future profits, the utilisation of which will expire in the following years:

	2005	2004
	HK$'000	HK$'000
Tax losses:		
To expire in 2006	**680**	2,168
Carried forward indefinitely	**87,303**	72,073
	87,983	74,241

No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

38. ACQUISITION OF SUBSIDIARY

On 15 June 2005, Profound, a wholly owned subsidiary of the Company acquired an additional 49% of the issued share capital of Kier HK at a consideration of HK$21,630,000. The acquisition has been accounted for by the acquisition method of accounting. Prior to the acquisition, Profound held 49.5% of the issued share capital of Kier HK. Upon the completion of the acquisition, Kier HK became a 98.5% owned subsidiary of the Group.

38. ACQUISITION OF SUBSIDIARY (Continued)

Details of the net assets of Kier HK acquired by the Group were as follows:

	Kier HK's carrying amount before acquisition HK$'000	Fair value adjustments and goodwill reclassification HK$'000	Fair value HK$'000
Property, plant and equipment	237	–	237
Intangible assets	–	32,858	32,858
Interests in jointly controlled entities	2,002	–	2,002
Amounts due from customers for contract works	18,410	–	18,410
Debtors, deposits and prepayments	38,769	–	38,769
Amount due from a jointly controlled entity	28	–	28
Bank balances and cash	15,972	–	15,972
Deferred tax liabilities	–	(5,750)	(5,750)
Creditors and accrued charges	(25,456)	–	(25,456)
Amounts due to group companies	(23,927)	–	(23,927)
Bank loan	(9,000)	–	(9,000)
Net assets	17,035	27,108	44,143
Minority interests			(662)
Reclassified from the Group's interests in associates			(17,561)
Revaluation increase on net assets shared by the Group in interests in associates			(4,290)
Net assets acquired by the Group/ Total consideration, satisfied by cash			21,630
Net cash outflow arising on acquisition			
Cash consideration paid			21,630
Cash and cash equivalent acquired			(15,972)
			5,658

Kier HK contributed HK$118,258,000 revenue and nil to the Group's profit for the year between the date of acquisition and the balance sheet date.

38. ACQUISITION OF SUBSIDIARY (Continued)

If the acquisition had been completed on 1 January 2005, total group turnover for the year would have been increased by HK$120,030,000 but would have had no change in the profit for the year. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005 nor is it intended to be a projection of future results.

39. COMMITMENTS

(a) Joint venture commitment

At 31 December 2004, the Group had committed to invest approximately HK$11,826,000 into a joint venture established in the PRC. The joint venture is principally engaged in civil engineering in the PRC. The above joint venture commitment is fully satisfied during the year.

(b) Operating lease commitments

Lessee

At 31 December 2005, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**3,402**	1,434
In the second to fifth years inclusive	**4,818**	143
	8,220	1,577

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranging from one to three years and rentals are fixed at the time of entering the respective leases.

40. PLEDGE OF ASSETS

Other than as disclosed in notes 29 and 31, as at 31 December 2005, bank deposits of the Group amounting to HK$6,687,000 were pledged to banks for the purpose of satisfying the terms and conditions of certain construction contracts entered into by the Group.

40. PLEDGE OF ASSETS (Continued)

At 31 December 2004, bank deposits of the Group amounting to HK$19,038,000 were pledged to banks to secure the banking facilities granted to the Group and jointly controlled entities.

The pledged deposits carry fixed interest ranging from 0.9% to 1.35% (2004: 0.8% to 1.35%) per annum. The fair value of bank deposits approximates to the corresponding carrying amount.

41. CONTINGENT LIABILITIES

	2005	2004
	HK$'000	HK$'000
Guarantee given to financial institutions in respect of banking facilities granted to an associate	**–**	35,000
Outstanding tender/performance/retention bonds in respect of construction contracts	**37,803**	23,927

42. RETIREMENT BENEFITS SCHEME

The Group operates two MPF Schemes for all eligible employees in Hong Kong. These MPF Schemes are registered with the Mandatory Fund Schemes Authority ("MPFA") in accordance with the Mandatory Provident Fund Schemes Ordinance ("MPF Schemes Ordinance").

The assets of the MPF Schemes are held separately from those of the Group under the control of independent trustees approved by the MPFA.

In addition to the mandatory contributions specified under the MPF Schemes Ordinance, the Group also provides additional contributions for certain qualifying employees as specified in the rules of the Group's MPF Schemes. Employees leaving the MPF Schemes prior to stipulated service periods may forfeit part of their benefits relating to the Group's voluntary contributions and these amounts may be applied to reduce future voluntary contributions payable by the Group.

The amount charged to the consolidated income statement represents contributions payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits.

43. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with the following related parties:

	2005 HK$'000	2004 HK$'000
Immediate holding company		
Corporate guarantee fee income (expense)	3,337	(5,131)
Management fee paid	–	914
Revenue from consultancy service	–	328
Fellow subsidiaries		
Purchase of goods	3,047	395
Associate		
Value of construction work certified	13,582	7,381
Consultancy fee paid	11,312	717
Secretarial and management service income	850	–
Interest income	–	1,292
Jointly controlled entities		
Management service income	4,487	–

The balances with related parties are unsecured, interest free and repayable on demand. The fair value of balances at 31 December 2005 approximates to the corresponding carrying amount.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2005 HK$'000	2004 HK$'000
Short-term benefits	15,522	19,281
Post-employment benefits	554	511
	16,076	19,792

43. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel (Continued)

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

At 31 December 2005, Wai Kee provided corporate guarantees amounting to HK$66,038,000 (2004: HK$45,000,000) to several banks to secure the general banking facilities granted to the Group.

At 31 December 2005 and 31 December 2004, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

In addition to above, the Group has an interest in a jointly controlled entity for the construction of Zhejiang Shenjiawan – Zhongmentong (the "JCE"). The JCE is an unincorporated jointly controlled entity operating in the PRC, with a 50% attributable interests held by a wholly owned subsidiary of the Company and the remaining attributable interest held by two wholly owned subsidiaries of Wai Kee.

44. AMOUNTS DUE TO MINORITY SHAREHOLDERS

Amounts are unsecured, interest-free and repayable on demand. The fair value of balance at 31 December 2005 approximates to the corresponding carrying amount.

45. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005	2004
	HK$'000	HK$'000
Interests in subsidiary	**60,000**	60,000
Amounts due from subsidiaries	**37,869**	19,673
Other current assets	**285**	250
Amounts due to subsidiaries	**(927)**	(1,643)
Other current liabilities	**(3,474)**	(277)
Bank loans	**(40,000)**	(20,000)
	53,753	58,003
Share capital	**78,141**	78,141
Convertible preference share capital	**15,000**	15,000
Reserves	**(39,388)**	(35,138)
	53,753	58,003

46. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Allied Wise Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Amazing Reward Group Limited	BVI	Hong Kong	US$1,000,000	100	Investment holding
Build King Construction Company Limited	Macau	Macau	MOP25,000	100	Construction and civil engineering
Graphic Construction Company Limited	Macau	Macau	MOP25,000	100	Construction and civil engineering
Hsin Lung Construction Company Limited	Taiwan	Taiwan	NT$175,000,000	100	Civil engineering
Innocity International Limited	Hong Kong	Hong Kong	HK$1	100	Investment holding
Kier Hong Kong Limited	United Kingdom	Hong Kong	GBP5,000,000	98.5	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares HK$24,000,000 Non-voting deferred shares *(Note 1)*	100	Civil engineering
Leader Construction Company Limited	Hong Kong	Hong Kong	HK$2	100	Provision of administrative and management services to group companies

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK$200,000	100	Marine engineering and provision of transportation services
Leader Marine L.L.C.	Sharjah, U.A.E.	U.A.E.	Dh300,000	100	Ships and boats rental and shipping services
Profound Success Limited	BVI	Hong Kong	US$1	100	Investment holding
Smart Start Investments Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US$1	100	Investment holding
W K Aviation Engineering Company Limited	Hong Kong	Hong Kong	HK$1	100	Engineering
Wai Kee China Construction Company Limited	Hong Kong	Hong Kong	HK$10,000,000	100	Civil engineering

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation	Place of operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK$2 Ordinary shares HK$14,800,000 Non-voting deferred shares HK$5,200,000 Non-voting deferred shares *(Note 1)*	100	Civil engineering
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK$1	100	Provision of secretarial and nominee services
Wuxi Qianhui Sewage Treatment Co., Ltd. *(Note 2)*	PRC	PRC	US$5,400,000	95.6	Sewage treatment
惠記環保工程(深圳)有限公司	PRC	PRC	HK$6,500,000	100	Environmental Engineering

Notes: 1. These deferred shares, which are not held by the Group, practically carry minimal rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of respective companies. On winding up, the holders of the deferred shares are entitled to a distribution out of the remaining assets of the respective companies only after the distribution of substantial amounts as specified in the Articles of Associations to holders of ordinary shares of the respective companies.

2. The company is a co-operative joint venture registered in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results of the year or constitute a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.