

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 45 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the five largest customers of the Group together accounted for approximately 89.8% of the Group's turnover, with the largest customer accounted for 53.7%, and the five largest suppliers of the Group together represented less than 13% by value of the Group's total purchases.

None of the Directors, or any of their associates, or any shareholders which, to the knowledge of the Directors owned more than 5% of the Company's share capital, had any beneficial interests in the Group's five largest customers as mentioned in the preceding paragraph.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 51.

The board of directors ("Board") does not recommend the payment of dividend for the year ended 31 December 2006 (31 December 2005: nil).

SEGMENT INFORMATION

Details of the segment information are set out in note 7 to the consolidated financial statements.

RESERVES

Movement in the reserves of the Group for the year is set out in the consolidated statement of changes in equity on page 54 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

There were no distributable reserves available for distribution to the Shareholders as at 31 December, 2005 and 2006.

FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the past five financial years is set out on page 109.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2006 are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in notes 32 and 33 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

Details of the Company's pension scheme are set out in note 42 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the financial year and up to the date of this report are:

Executive Directors

Zen Wei Peu, Derek (*Chairman*)

Yu Sai Yen (*Vice Chairman*)

Non-executive Directors

David Howard Gem

Cheng Chi Pang, Leslie

Lam Wai Hon, Patrick (appointed on 11 May 2006)

Independent Non-executive Directors

Chow Ming Kuen, Joseph

Ng Chi Ming, James

Ho Tai Wai, David

Details of the Directors are set out in the section of Directors and Senior Management.

In accordance with Bye-law 94 of the Company's Bye-laws, Mr. Lam Wai Hon, Patrick shall retire from office at the forthcoming annual general meeting, and being eligible, offer himself for re-election.

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Yu Sai Yen, Mr. David Howard Gem and Dr. Cheng Chi Pang, Leslie shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

Each of Messrs. Zen Wei Peu, Derek and Yu Sai Yen has entered into a service contract with the Company for a term of three years commencing on 1 May 2004.

The Non-executive Directors have been appointed for a term subject to retirement by rotation as required by the Company's Bye-laws.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each Independent Non-executive Director an annual confirmation of his independence during the year ended 31 December 2006 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on Stock Exchange. The Company considers all the Independent Non-executive Directors to be independent.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in note 12 to the consolidated financial statements.

DIRECTORS' INTERESTS

As at 31 December 2006, the interests (including short positions) of the Directors and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, were as follows:

DIRECTORS' INTERESTS (Continued)

The Company

Name of Director	Capacity/ Nature of interest	Number of Shares held		Percentage of shareholding (%)
		Long position	Short position	
Zen Wei Peu, Derek	Personal	107,581,421	–	13.77
David Howard Gem	Personal	140,000	–	0.02
Cheng Chi Pang, Leslie	Personal	1,170,000	–	0.15
Lam Wai Hon, Patrick	Personal	140,000	–	0.02

Associated corporations

Name of Director	Name of company	Capacity/ Nature of interest	Number of shares held		Percentage of shareholding (%)
			Long position	Short position	
Zen Wei Peu, Derek	Wai Kee	Personal	185,057,078 (Note 1)	–	23.33
	WKC&T	Personal	2,000,000 (Note 2)	–	10.00
	Wai Luen Stone Products Limited	Personal	30,000 (Note 3)	–	37.50
David Howard Gem	Wai Kee	Personal	500,000 (Note 4)	–	0.06
	Kaden	Corporate	75,000 (Note 5)	–	1.15
Cheng Chi Pang, Leslie	Wai Kee	Personal	500,000 (Note 6)	–	0.06
Lam Wai Hon, Patrick	Wai Kee	Personal	300,000 (Note 7)	–	0.04

DIRECTORS' INTERESTS (Continued)

Associated corporations (Continued)

Notes:

1. The number of shares taken to be interested or to have a long position by Mr. Zen Wei Peu, Derek was 185,057,078 ordinary shares of HK\$0.10 each in the capital of Wai Kee.
2. The number of shares taken to be interested or to have a long position by Mr. Zen Wei Peu, Derek was 2,000,000 non-voting deferred shares of HK\$1.00 each in the capital of WKC&T, a wholly owned subsidiary of the Company.
3. The number of shares taken to be interested or to have a long position by Mr. Zen Wei Peu, Derek was 30,000 non-voting deferred shares of HK\$10.00 each in the capital of Wai Luen Stone Products Limited, a wholly owned subsidiary of Wai Kee.
4. The number of shares taken to be interested or to have a long position by Mr. David Howard Gem was 500,000 ordinary shares of HK\$0.10 each in the capital of Wai Kee.
5. The number of shares taken to be interested or to have a long position by Mr. David Howard Gem was 75,000 ordinary shares of £1.00 each in the capital of Kaden through his 100% interest in Transoceanic Ventures Limited.
6. The number of shares taken to be interested or to have a long position by Dr. Cheng Chi Pang, Leslie was 500,000 ordinary shares of HK\$0.10 each in the capital of Wai Kee.
7. The number of shares taken to be interested or to have a long position by Mr. Lam Wai Hon, Patrick was 300,000 ordinary shares of HK\$0.10 each in the capital of Wai Kee.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or of any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONSULTANCY AGREEMENT

The Company, through its subsidiary, entered into the Consultancy Agreement with Gateway Business Services Limited ("Gateway") (wholly owned by Mr. David Howard Gem ("Mr. Gem"), a non-executive Director of the Company) whereby the Group agreed to engage Gateway via Mr. Gem to provide consultancy services to the Group for two years commencing 1 June 2006 at a monthly fee of HK\$90,000. Details of this transaction are set out in "Connected Transaction" section.

COMPETING INTEREST

During the year, the following Director was interested in the business which competes or was likely to compete either directly or indirectly, with the business of the Group as required to be disclosed under the Listing Rules:

Name of Director	Name of entity	Competing business	Nature of interest
Lam Wai Hon, Patrick	NWS Holdings Limited and group of companies	Construction	Director

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial Shareholder	Capacity/ Nature of interest	Number of Shares held and percentage of shareholding			
		Long position		Short position	
		Number of Shares	%	Number of Shares	%
Top Horizon Holdings Limited ("Top Horizon") (Note 1(a))	Personal/ Beneficiary	572,421,270 (Notes 1 and 2)	73.26	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note 1(b))	Personal/ Beneficiary	5	0.00	–	–
	Corporate	572,421,270 (Notes 1 and 3)	73.26	–	–
Wai Kee (Note 1(c))	Corporate	572,421,275 (Notes 1 and 3)	73.26	–	–
Vast Earn Group Limited (Note 1(d))	Personal/ Beneficiary	59,883,040 (Note 1)	7.66	–	–
NWS Service Management Limited (incorporated in the British Virgin Islands) (Note 1(e))	Corporate	59,883,040 (Note 1)	7.66	–	–
NWS Service Management Limited (incorporated in the Cayman Islands) (Note 1(f))	Corporate	59,883,040 (Note 1)	7.66	–	–

SUBSTANTIAL SHAREHOLDERS (Continued)

Name of substantial Shareholder	Capacity/ Nature of interest	Number of Shares held and percentage of shareholding			
		Long position		Short position	
		Number of Shares	%	Number of Shares	%
NWS Holdings Limited (Note 1(g))	Corporate	59,883,040 (Note 1)	7.66	–	–
New World Development Company Limited (Note 1(h))	Corporate	59,883,040 (Note 1)	7.66	–	–
Chow Tai Fook Enterprises Limited (Note 1(i))	Corporate	59,883,040 (Note 1)	7.66	–	–
Centennial Success Limited Limited (Note 1(j))	Corporate	59,883,040 (Note 1)	7.66	–	–
Cheng Yu Tung Family (Holdings) Limited (Note 1(k))	Corporate	59,883,040 (Note 1)	7.66	–	–

Notes:

- I. Long position in the Shares
 - (a) Top Horizon was a direct wholly owned subsidiary of Wai Kee (Zens).
 - (b) Wai Kee (Zens) was deemed to be interested in the Shares through its interests in Top Horizon.
 - (c) Wai Kee (Zens) was a direct wholly owned subsidiary of Wai Kee. Accordingly, Wai Kee was deemed to be interested in the Shares through its interests in its wholly owned subsidiaries, namely Wai Kee (Zens) and Top Horizon.
 - (d) Vast Earn Group Limited was a wholly owned subsidiary of NWS Service Management Limited (incorporated in the British Virgin Islands).
 - (e) NWS Service Management Limited (incorporated in the British Virgin Islands) was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely Vast Earn Group Limited.

SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

- (f) NWS Service Management Limited (incorporated in the Cayman Islands) was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the British Virgin Islands).
 - (g) NWS Holdings Limited was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the Cayman Islands).
 - (h) New World Development Company Limited was deemed to be interested in the Shares through its interests in its subsidiary, namely NWS Holdings Limited.
 - (i) Chow Tai Fook Enterprises Limited was deemed to be interested in the Shares through its interests in more than one-third of the issued share capital of New World Development Company Limited.
 - (j) Centennial Success Limited was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely Chow Tai Fook Enterprises Limited.
 - (k) Cheng Yu Tung Family (Holdings) Limited was deemed to be interested in the Shares through its interests in its subsidiary, namely Centennial Success Limited.
2. The number of Shares taken to be interested or to have a long position by Top Horizon included (i) 422,421,270 Shares; and (ii) derivative of 1,500,000,000 convertible and non-redeemable preference shares in the capital of the Company, which could be convertible into 150,000,000 Shares pursuant to the terms of issue of convertible and non-redeemable preference shares.
3. The number of Shares taken to be interested or to have a long position by Wai Kee (Zens) and Wai Kee included (i) 422,421,275 Shares; and (ii) derivative of 1,500,000,000 convertible and non-redeemable preference shares in the capital of the Company, which could be convertible into 150,000,000 Shares pursuant to the terms of issue of convertible and non-redeemable preference shares.

Save as disclosed above, as at 31 December 2006, no other person (other than Directors or chief executives of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTION**Consultancy Agreement with Gateway**

As announced on 1 June, 2006, the Company, through its subsidiary, entered into the Consultancy Agreement ("the Agreement") with Gateway (wholly owned by Mr. Gem). Pursuant to the Agreement, the Group agreed to engage Gateway through Mr. Gem to provide consultancy services on normal commercial terms and at a consultancy fee of HK\$90,000.00 per month (including travelling and accommodation) together with a discretionary additional fee (not exceeding HK\$10,000 per month) for two years commencing 1 June 2006. The services include, but are not limited to, strategic planning, marketing, project performance review, tendering, training and other services requested by the Group from time to time.

With profession qualification in construction and civil engineering and extensive experience in the management, design and construction of a wide variety of civil engineering and building projects possessed by Mr. Gem, the Board (except Mr. Gem) believed that Mr. Gem could make contribution to business development and continuing growth of the Group's construction business. The consultancy fee was determined after taking into consideration of scope of work, his experience and the prevailing market situation. The Directors (except Mr. Gem) considered that the transaction was arrived at after arm's length negotiation on normal commercial terms, the terms of the transaction were fair and reasonable and in the interests of the Shareholders as a whole.

As Mr. Gem is a connected person of the Company, the transaction constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. As each of the percentage ratios (other than the profits ratio) was less than 2.5%, the transaction was only subject to the reporting and announcement requirements and was exempt from the independent shareholders' approval requirement. Details of the transaction were disclosed in the announcement dated 1 June 2006.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2006.

DISCLOSURE PURSUANT TO RULES 13.16 AND 13.22 OF THE LISTING RULES

- (1) As at 31 December 2006, financial assistance to and guarantees given for the benefit of the Company's affiliated companies by the Group together amounted in aggregate to approximately HK\$58,327,000 representing approximately 9.23% of the Group's total assets of HK\$631,817,000 (being the Group's total assets of HK\$654,617,000 as at 31 December 2006, adjusted for the aggregate of distribution declared prior to the group restructuring and cumulative preference share dividend accrued for up to the year ended 31 December 2006 amounting to approximately HK\$22,800,000 pursuant to Rule 14.16(1) of the Listing Rules).

DISCLOSURE PURSUANT TO RULES 13.16 AND 13.22 OF THE LISTING RULES (Continued)

(2) Details of the financial assistance to and guarantee given for the benefit of the Company's affiliated companies as at 31 December 2006 were as follows:

Affiliated Companies	Attributable interest held by the Group	Guarantee given for facilities utilised by affiliated companies HK\$'000	Loan granted to affiliated companies HK\$'000	Total HK\$'000	Loan maturity date
Balfour-Beatty-Zen Pacific Joint Venture	50.0%	–	940	940	on demand
Barclay Mowlem-Zen Pacific-China Civil Joint Venture	35.0%	–	17	17	on demand
China Railway Tenth Group Third Engineering Co., Ltd.	25.0%	10,249	3,117	13,366	on demand
Dragages (HK) Joint Venture	14.0%	–	767	767	on demand
Dragages – Zen Pacific Joint Venture	25.0%	–	108	108	on demand
Hip Hing – Leader JV Limited	33.3%	–	6,997	6,997	on demand
Hong Kong Landfill Restoration Group Limited	34.5%	–	1,699	1,699	on demand
Kaden-Leader-Kenworth Joint Venture	64.0%	–	31	31	on demand
Kaden-STAMsteel Joint Venture (HAECO)	50.0%	32,250	–	32,250	on demand
Kaden-STAMsteel Joint Venture (HKBAC)	72.0%	–	462	462	on demand
Kier/Zen Pacific Joint Venture	50.0%	–	345	345	on demand
常州利駿建築工程有限公司	40.0%	–	1,345	1,345	on demand
		<u>42,499</u>	<u>15,828</u>	<u>58,327</u>	

**DISCLOSURE PURSUANT TO RULES 13.16 AND 13.22 OF THE LISTING RULES
(Continued)**

- (3) The proforma combined balance sheet of the Company's aforesaid affiliated companies as at 31 December 2006, which were prepared based on their financial statements prepared in accordance with the accounting principles generally accepted by the Hong Kong for the year ended 31 December 2006, was as follows:

	HK\$'000
Non-current assets	104,148
Current assets	710,776
Current liabilities	(680,240)
Non-current liabilities	(23,930)
	110,754
Net Assets	110,754

Saved as disclosed above, as at 31 December 2006, the Company did not have other disclosure obligations under Rules 13.16 and 13.22 of the Listing Rules.

**DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES
Loan facility of HK\$40,000,000.00**

The Company was granted a term loan facility of HK\$40,000,000.00 (the "Facility") pursuant to a facility letter from an independent bank dated 22 July 2004 (renewed on 21 December 2006). The full sum of the Facility shall be repaid by six half-yearly instalments commencing eighteen months after the date of drawdown of the Facility.

For so long as the Facility is made available to the Company, Wai Kee and Mr. Zen Wei Peu, Derek ("Mr. Zen"), are required to undertake to maintain their joint shareholding in the Company at not less than 50% of the total issued share capital of the Company. Wai Kee is the controlling shareholder of the Company. Mr. Zen is a director of the Company. Accordingly, this disclosure is made pursuant to Rules 13.18 and 13.21 of the Listing Rules.

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES (Continued)

Loan Facility of Euro5,000,000.00

On 31 March 2006, the Company as the borrower entered into the Facility Agreement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company) for the amount of Euro5,000,000.00 ("Facility") to finance the acquisition and/or construction of wastewater treatment facilities in the PRC and the ongoing operation and maintenance on those facilities.

For so long as the Facility is made available to the Company, Wai Kee is required to control and/or beneficially own (directly or indirectly) more than 50% of the total issued share capital of the Company. Accordingly, this disclosure is made pursuant to Rules 13.18 and 13.21 of the Listing Rules.

Save as disclosed above, as at 31 December 2006, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$12,000.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the per cent of its public float exceeds 25% for the year ended 31 December 2006 and up to 3 April 2007, the latest practicable date to ascertain such information prior to the issue of this annual report.

SUBSEQUENT EVENT

As announced on 18 January 2007, the Company, through its subsidiary, during the period from 3 January 2007 to 16 January 2007 disposed of an aggregate of 2,360,000 shares of Chaoda Modern Agriculture (Holdings) Limited on market for a total consideration of approximately HK\$13.97 million.

As the aggregate consideration for the above disposal exceeded 5% of the total market capitalisation of the Company, the disposal constituted a discloseable transaction under the Listing Rules. Details of the transaction were disclosed in the circular dated 2 February 2007.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as Auditor of the Company.

On behalf of the Board

Zen Wei Peu, Derek

Chairman

3 April 2007