1. GENERAL

The Company is 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 Holdings Limited ("Top Horizon"). The directors of the Company ("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 45, 35 and 20 respectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results and the financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early adopted the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors have commenced considering the potential impact of these new standards, amendment or interpretations but are not yet in a position to determine whether these would have a significant impact on how the results and the financial position of the Group are prepared and presented. These new standards, amendment or interpretations may result in changes in the future as to how the results and the financial position of the Group are prepared and presented.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[8]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 January 2009

3. 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 Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

When a business combination involves more than one exchange transaction, the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is measured separately at the date of each exchange transaction. Increase in those fair values relating to previously held interests of the Group is credited to the asset revaluation reserve.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2004) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated 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 and is assessed for impairment as part of the investment.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary 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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 net assets 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.

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 net assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold 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 performed during the year. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract 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.

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.

3. **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 consolidated 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 recognised. 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 revenue is recognised 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.

Construction contracts in progress at the balance sheet date are recorded in the consolidated balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the consolidated 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 consolidated 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.

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

Leasing (Continued)

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.

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. 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 Group (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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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 acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets acquired in a business combination (Continued)

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.

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. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 consist of held-for-trading investments. At each balance sheet date, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets **(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 debtors, amounts due from related companies, pledged bank deposits and bank balances) 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 financial assets at fair value through profit or loss, loans and receivables and held to maturity investments.

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, 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 profit or loss in subsequent periods.

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

***Financial liabilities and equity* (Continued)**

Financial liabilities

Financial liabilities including creditors, amounts due to related companies, amounts due to minority shareholders, bank loans 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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

Impairment losses (other than goodwill, intangible assets with indefinite useful lives)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following estimation that have a significant effect on the amounts recognised in the consolidated 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.

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 2006 at HK$32,858,000. The construction projects continue to progress in a 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 share 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 is applied in order to calculate the present value. As at 31 December 2006, the carrying amount of goodwill is HK$30,554,000. Details of the impairment loss calculation are disclosed in note 19.

Income taxes

As at 31 December 2006, a deferred tax asset of HK$37,868,000 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Construction contracts

For the year ended 31 December 2006, the Group recognised losses from construction contracts of HK$34,438,000, 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 contract.

For the year ended 31 December 2006, the Group's estimated profits from construction contracts of its jointly controlled entities amounted to HK$32,610,000, which were principally derived from the construction contracts being carried out by the jointly controlled entities. These figures were derived from the latest available budgets of the construction contracts which were prepared by the management of the respective jointly controlled entity and the Group and were based on the overall performance of each construction contract.

5. FINANCIAL INSTRUMENTS

a. Financial Risk Management Objectives and Policies

The Group's risks associated with 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.

Market risk

(i) Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 31) and bank balances. 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 (the functional currency of the relevant group entity) 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.

5. FINANCIAL INSTRUMENTS (Continued)

a. Financial Risk Management Objectives and Policies (Continued)

Market risk (Continued)

(iii) Equity price risk

The Group is exposed to equity security price risk through its held-for-trading investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

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 2006 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.

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 in place for general funding purposes.

b. Fair value

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

5. FINANCIAL INSTRUMENTS (Continued)

b. Fair value (Continued)

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. TURNOVER

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

	2006 HK$'000	2005 HK$'000
Group turnover	605,927	544,960
Share of turnover of jointly controlled entities		
Hong Kong	368,033	114,188
Taiwan	1,745	11,035
Other regions in the PRC	13,747	26,184
	989,452	696,367

7. 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 2006

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results					
Segment group turnover	490,918	–	97,358	17,651	605,927
Segment results	(20,454)	(1,532)	1,399	(196)	(20,783)
Unallocated net corporate expenses					(4,832)
Investment income					38,600
Share of results of jointly controlled entities	26,195	1,642	(977)	–	26,860
Share of results of associates	(15)	–	–	–	(15)
Finance costs					(6,746)
Profit before taxation					33,084
Income taxes					(25,691)
Profit for the year					7,393

7. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

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 corporate expenses					(109)
Investment expense					(317)
Share of results of jointly controlled entities	53,101	9,221	1,129	–	63,451
Share of results of associates	1,655	–	–	–	1,655
Finance costs					(3,163)
Profit before taxation					31,515
Income taxes					207
Profit for the year					31,722

At 31 December 2006

	Hong Kong HK$'000	**Taiwan HK$'000**	**The PRC HK$'000**	**Middle East HK$'000**	**Total HK$'000**
Assets					
Segment assets	**252,985**	**6,816**	**132,454**	**15,400**	**407,655**
Interests in joint ventures	**20,512**	**1,097**	**41,067**	**–**	**62,676**
Unallocated corporate assets					**184,286**
Total consolidated assets					**654,617**
Liabilities					
Segment liabilities	**186,068**	**1,781**	**83,323**	**4,652**	**275,824**
Obligations in excess of interests in associates	**22,044**	**–**	**–**	**–**	**22,044**
Unallocated corporate liabilities					**194,592**
Total consolidated liabilities					**492,460**

7. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

For the year ended 31 December 2006

	Hong Kong	Taiwan	The PRC	Middle East	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Additions in property, plant and equipment	351	20	33,357	131	33,859
Depreciation of property, plant and equipment	6,054	56	217	3,425	9,752
Gain on disposal of property, plant and equipment	5,616	–	–	3,675	9,291
Write back of allowance for bad and doubtful debt	1,787	–	–	–	1,787

At 31 December 2005

	Hong Kong	Taiwan	The PRC	Middle East	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets					
Segment assets	231,780	7,107	56,248	22,167	317,302
Interests in joint ventures	9,083	2,388	44,492	–	55,963
Unallocated corporate assets					148,004
Total consolidated assets					521,269
Liabilities					
Segment liabilities	186,232	1,704	6,343	1,204	195,483
Obligations in excess of interests in associates	22,029	–	–	–	22,029
Unallocated corporate liabilities					149,502
Total consolidated liabilities					367,014

7. SEGMENTAL INFORMATION (Continued)

(b) Geographical segments (Continued)

For the year ended 31 December 2005

	Hong Kong	Taiwan	The PRC	Middle East	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Increase in intangible assets	32,858	–	–	–	32,858
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
Gain on disposal of property, plant and equipment	30	–	–	–	30

8. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Other income includes:		
Interest on finance lease receivables	**120**	174
Interest on bank deposits	**300**	101
Gain on disposal of property, plant and equipment, net	**9,291**	30
Write back of allowance for bad and doubtful debt	**1,787**	–
Service income from associates for secretarial and management services rendered	**850**	850
Service income from jointly controlled entities for management services rendered	**–**	4,487
Net foreign exchange gains	**–**	1,424
Recovery of Value Added Tax previously written off	**–**	1,309
Technical consultancy fee income	**–**	708

9. INVESTMENT INCOME (EXPENSE)

	2006 HK$'000	2005 HK$'000
Dividends from held-for-trading investments	**2,953**	2,534
Increase (decrease) in fair value of held-for-trading investments	**35,647**	(2,851)
	38,600	(317)

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**7,834**	2,271
Interest bearing amount due to an associate	**158**	–
Imputed interest expense on non-current interest free amount due to an associate	**176**	–
Imputed interest expense on non-current interest free loan from a former shareholder of an acquired subsidiary	**–**	892
	8,168	3,163
Less: amount capitalised in property and plant under construction	**(1,422)**	–
	6,746	3,163

11. PROFIT BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	**1,461**	1,450
Underprovision in prior years	**152**	70
	1,613	1,520
Depreciation	**9,769**	6,674
Less: Amount attributable to construction contracts	**(17)**	–
	9,752	6,674
Hire charges for plant and machinery	**40,717**	42,548
Less: Amount attributable to construction contracts	**(40,717)**	(42,548)
	–	–
Staff costs:		
Directors' remuneration *(note 12)*	**5,519**	8,388
Other staff costs	**147,198**	159,073
Retirement benefits scheme contributions, excluding amounts included in Directors' remuneration and net of forfeited contributions of HK$353,000 (2005: HK$173,000)	**7,881**	8,232
	160,598	175,693
Less: Amount attributable to construction contracts	**(117,350)**	(119,774)
	43,248	55,919
Operating lease rentals in respect of land and buildings	**3,463**	2,994
Less: Amount attributable to construction contracts	**(68)**	(67)
	3,395	2,927
Net foreign exchange losses	**194**	–
Consultancy fee paid to an associate	**–**	11,312
Share of income taxes of jointly controlled entities (included in share of results of jointly controlled entities)	**1,790**	(3,289)

12. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the eight (2005: 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	–	12	2,500
Yu Sai Yen	–	2,111	–	183	2,294
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
Lam Wai Hon, Patrick	–	–	–	–	–
Total for 2006	**725**	**4,599**	**–**	**195**	**5,519**

		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

The performance related incentive payments were determined as a percentage of the Group's profit for the year ended 31 December 2005.

No Director waived any emoluments for both years ended 31 December 2006 and 2005.

13. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two (2005: two) Directors, details of whose emoluments are set out in note 12 above. The emoluments of the remaining three (2005: three) highest paid individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**4,198**	3,841
Performance related incentive payments	**–**	1,195
Retirement benefits scheme contributions	**267**	224
	4,465	5,260

Their emoluments were within the following bands:

	Number of employees	
	2006	2005
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**1**	3

14. INCOME TAXES

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong	**5,157**	2,221
Under(over)provision in prior years:		
Hong Kong	**20,472**	(2,567)
Other jurisdictions	**62**	139
	25,691	(207)

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

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

14. INCOME TAXES (Continued)

In 2002, Zen Pacific Civil Contractors Limited ("ZPCCL") and Leader Civil Engineering Corporation Ltd. ("LCECL"), both of them being wholly owned subsidiaries of the Company, entered into a Project Coordination Agreement (the "Agreement"), pursuant to which ZPCCL transferred to LCECL all economic benefits and obligations arising from being partners of several joint ventures at a fixed consideration. Upon the completion of the sale and transfer, the management took the view that LCECL was entitled to share profits of these joint ventures and hence able to offset the profits derived from them against its tax losses. Based on this view, income taxes of approximately HK$19 million paid by the joint ventures in respect of LCECL's share of profits were recognised as other debtors under current assets at 31 December 2005.

During 2006, the Inland Revenue Department ("IRD") of the HKSAR informed the Company that regardless of the commercial substance of the Agreement and the accounting treatment of the transactions as if it was an outright sale and transfer of interests in joint ventures by ZPCCL to LCECL, the IRD were of the view that ZPCCL as the legal partner of these joint ventures and therefore LCECL was not entitled to offset the profits derived from these joint ventures against its tax losses.

Having consulted with the Company's legal and tax advisers, the management accepted the IRD's view and the consolidated financial statements for 2006 were therefore prepared on the basis that ZPCCL remained the legal partner of these joint ventures from an income tax point of view. The resulting impact on the financial results and position of the Group was an underprovision of prior years' income taxes of approximately HK$20 million, which is being charged to the income tax expense for the year as further illustrated below:

(a) Approximately HK$19 million included in other debtors at 31 December 2005 is written off and charged to income tax expense for the year,

(b) Income taxes of approximately HK$16 million paid in 2006 by joint ventures for LCECL's share of joint ventures' 2005 profits are charged to the income tax expense for the year, and

(c) Income taxes of approximately HK$15 million paid by LCECL in prior years in respect of profit distributions from these joint ventures are determined refundable by the IRD and therefore are being credited to the income tax expense for the year.

14. INCOME TAXES (Continued)

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**33,084**	31,515
Taxation at the applicable rate of 17.5%	**5,790**	5,515
Tax effect of share of results of associates	**3**	(290)
Tax effect of share of results of jointly controlled entities	**(4,701)**	(11,104)
Tax effect of expenses that are not deductible in determining taxable profit	**1,374**	2,750
Tax effect of unrecognised tax losses	**5,580**	13,275
Tax effect of income that is not taxable in determining taxable profit	**(2,972)**	(3,553)
Under(over)provision in prior years	**20,534**	(2,428)
Utilisation of tax losses previously not recognised	**(4,073)**	(2,745)
Tax effect of different tax rates for companies operating in other jurisdictions	**3,165**	(595)
Others	**991**	(1,032)
Income taxes for the year	**25,691**	(207)

15. EARNINGS PER SHARE

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

	2006 HK$'000	2005 HK$'000
Profit for the year attributable to ordinary equity holders of the parent	**7,366**	30,336
Dividends on convertible preference share capital	**(300)**	(300)
Earnings for the purposes of basic earnings per share	**7,066**	30,036
Effect of dilutive potential ordinary shares:		
Dividends on convertible preference share capital	**300**	300
Earnings for the purposes of diluted earnings per share	**7,366**	30,336

	Number of shares	
	'000	'000
Number of ordinary shares for the purposes of basic earnings per share	**781,408**	781,408
Effect of dilutive potential ordinary shares:		
Convertible preference share capital	**150,000**	150,000
Number of ordinary shares for the purposes of diluted earnings per share	**931,408**	931,408

16. 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 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 1 January 2006	7,677	14,431	20,620	5,151	88,984	7,525	144,388
Exchange realignment	–	26	122	23	–	278	449
Additions	–	–	348	235	–	33,276	33,859
Disposals	–	–	–	(188)	(15,932)	–	(16,120)
At 31 December 2006	**7,677**	**14,457**	**21,090**	**5,221**	**73,052**	**41,079**	**162,576**
DEPRECIATION AND IMPAIRMENT							
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 1 January 2006	7,671	14,212	19,683	4,722	70,624	–	116,912
Exchange realignment	–	26	31	8	–	–	65
Provided for the year	4	117	507	152	8,989	–	9,769
Eliminated on disposals	–	–	–	(188)	(15,289)	–	(15,477)
At 31 December 2006	**7,675**	**14,355**	**20,221**	**4,694**	**64,324**	**-**	**111,269**
CARRYING VALUES							
At 31 December 2006	**2**	**102**	**869**	**527**	**8,728**	**41,079**	**51,307**
At 31 December 2005	6	219	937	429	18,360	7,525	27,476

16. 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, Wuxi City, Wuxi Qianhui was granted the right to construct and operate a sewage treatment plant for a term of 30 years. By the end of the 30th year, the sewage treatment plant will then be transferred to the People's Government of Qian Qiao Zhen at zero consideration. The construction cost of the sewage treatment plant is estimated to be approximately HK$42 million. The construction work on the sewage treatment plant is expected to be completed in the first quarter of 2007 and the sewage treatment plant shall commence operation thereafter.

The above items of property, plant and equipment are depreciated on a straight-line basis 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%

17. INTANGIBLE ASSETS

The amount represents the fair value of the construction licenses (with indefinite useful lives) held by a subsidiary acquired by the Group in 2005 (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 inflow 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 inflow 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 19.

18. GOODWILL

The amount represents goodwill arising on the reverse acquisition of the Company in 2004. Particulars regarding impairment testing on goodwill are disclosed in note 19.

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

For the purposes of impairment testing, goodwill 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 in 2005 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 17 have been allocated to the CGU of the remaining subsidiary acquired in 2005, 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 with no limitation in contract sum.

During the year ended 31 December 2006, 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 Group's management covering a period of 5 years, and a discount rate of 10% (2005: 10%). Goodwill and intangible assets are expected to generated cash flows for an indefinite period of time. 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.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK$'000	2005 HK$'000
Cost of investment in unlisted jointly controlled entities	**41,287**	41,284
Share of post-acquisition profits, net of dividends received	**21,389**	14,679
	62,676	55,963

At 31 December 2006, 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
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated	PRC	25	Civil engineering
Dragages (HK) Joint Venture	Unincorporated	Hong Kong	14 *(note)*	Civil engineering
Hip Hing – Leader JV Limited	Incorporated	Hong Kong	33 1/3	Civil engineering
Kaden-STAMsteel Joint Venture (HKBAC)	Unincorporated	Hong Kong	72 *(note)*	Civil engineering
Kaden-STAMsteel Joint Venture (HAECO)	Unincorporated	Hong Kong	50	Civil engineering
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated	PRC	51 *(note)*	Road construction
常州利駿建築工程有限公司	Incorporated	PRC	40	Property construction

Note: The Group holds either less than 20% or greater than 50% 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.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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.

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

	2006	2005
	HK$'000	HK$'000
Turnover	**383,525**	151,407
Other income	**2,435**	2,051
Total revenue	**385,960**	153,458
Total expenses	**(357,310)**	(93,296)
Profit before taxation	**28,650**	60,162
Income taxes	**(1,790)**	3,289
Profit for the year	**26,860**	63,451

Share of assets and liabilities attributable to the Group

	2006	2005
	HK$'000	HK$'000
Non-current assets	**18,157**	18,243
Current assets	**242,515**	206,394
Current liabilities	**(197,584)**	(168,674)
Non-current liabilities	**(412)**	–
Net assets	**62,676**	55,963

21. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK$'000	2005 HK$'000
Unlisted equity securities, at cost	**3,927**	32,118
Less: Impairment loss recognised	**(800)**	(800)
	3,127	31,318
Analysed for reporting purposes as:		
Non-current available-for-sale investments	**3,127**	3,016
Current available-for-sale investments *(Note)*	**–**	28,302
	3,127	31,318

The above unlisted investments represent investments 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 represented 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 was pledged to another equity holder of SEICL to secure a loan of HK$28,302,000 as disclosed in note 30. During the year, the Group successfully divested its entire equity interest in SEICL for a consideration of HK$28,302,000 which was then used to fully repay the interest-free loan from that another equity holder of SEICL.

22. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**695**	834	**660**	714
In the second to fifth year inclusive	**–**	695	**–**	660
	695	1,529	**660**	1,374
Less: Unearned finance income	**(35)**	(155)	**–**	–
Present value of minimum lease payments receivables	**660**	1,374	**660**	1,374
Less: Finance lease receivables recoverable within next twelve months			**(660)**	(714)
Finance lease receivables recoverable after next twelve months classified as non-current assets			**–**	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.

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

23. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2006	2005
	HK$'000	HK$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	**3,746,987**	2,291,919
Less: Progress billings	**(3,690,386)**	(2,268,300)
	56,601	23,619
Represented by:		
Due from customers included in current assets	**57,695**	39,780
Due to customers included in current liabilities	**(1,094)**	(16,161)
	56,601	23,619

24. DEBTORS, DEPOSITS AND PREPAYMENTS

	2006	2005
	HK$'000	HK$'000
Trade debtors analysed by age:		
0 to 60 days	**164,014**	98,904
Over 90 days	**15,004**	118
	179,018	99,022
Retentions receivable	**13,434**	25,848
Other debtors, deposits and prepayments	**31,456**	39,524
	223,908	164,394

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.

25. AMOUNTS DUE FROM ASSOCIATES/JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and recoverable on demand.

26. HELD-FOR-TRADING INVESTMENTS

	2006	2005
	HK$'000	HK$'000
Equity securities listed in Hong Kong at quoted market bid prices	**94,247**	56,196

At 31 December 2006, certain equity securities with market value of HK$41,596,000 (2005: HK$20,255,200) were pledged to a bank to secure general banking facilities granted to the Group.

Even certain equity securities were pledged to the bank, the Directors believe that the pledged securities can be released by the bank within a short period of time upon the Group's request for the purpose of trading.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits of the Group amounting to HK$6,692,000 (2005: 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 and securing the banking facilities granted to the Group. The pledged bank deposits carry fixed interest ranging from 2.16% to 2.23% (2005: 0.9% to 1.35%) per annum.

Bank balances carry average market interest rate ranging from 2.27% to 2.63% (2005: 0.01% to 2.22%) per annum.

28. CREDITORS AND ACCRUED CHARGES

	2006 HK$'000	2005 HK$'000
Trade creditors analysed by age:		
0 to 60 days	**24,748**	20,660
61 to 90 days	**11,260**	415
Over 90 days	**11,985**	6,305
	47,993	27,380
Retentions payable	**22,878**	22,646
Accrued project costs	**112,038**	66,545
Other creditors and accrued charges	**26,742**	35,452
	209,651	152,023

For retentions payable in respect of construction contracts, the due dates are usually one year after the completion of the construction work.

29. AMOUNTS DUE TO AN INTERMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/JOINTLY CONTROLLED ENTITIES/MINORITY SHAREHOLDERS

Amounts are unsecured, interest-free and repayable on demand.

30. OTHER BORROWINGS

The amount represented interest-free loan from an equity holder of SEICL and was secured by the Group's 4.41% equity interest in SEICL as disclosed in note 21. The loan was fully repaid during the year.

31. BANK LOANS

	2006 HK$'000	2005 HK$'000
The maturity of bank loans is as follows:		
Within one year	**106,602**	37,600
In the second year	**32,294**	18,200
In the third to fifth year inclusive	**22,374**	35,200
	161,270	91,000
Less: Amount due within one year shown under current liabilities	**(106,602)**	(37,600)
Amount due after one year	**54,668**	53,400
Secured	**65,000**	18,000
Unsecured	**96,270**	73,000
	161,270	91,000

All the bank loans are variable-rate borrowings which carry interest ranging from 5% to 10% (2005: 2% to 7%) per annum. Total of HK$72,868,000 bank loans (2005: HK$60,000,000) carry an interest which is repriced every six months. Remaining bank loans carry interest which is repriced every month.

32. ORDINARY SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares		
At 1 January 2005, 31 December 2005 and 2006 of HK$0.1 each	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares		
At 1 January 2005, 31 December 2005 and 2006 of HK$0.1 each	781,408,494	78,141

33. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2005, 31 December 2005 and 2006	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
Convertible preference shares of HK$0.01 each		
At 1 January 2005, 31 December 2005 and 2006	1,500,000,000	15,000

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.

34. 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 2005	–
Acquired on acquisition of a subsidiary *(note 38)*	5,750
At 31 December 2005 and 2006	5,750

34. DEFERRED TAX LIABILITIES (Continued)

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:

	2006	2005
	HK$'000	HK$'000
Tax losses:		
To expire in 2007	**148**	680
To expire in 2011	**1,207**	–
Carried forward indefinitely	**215,033**	87,303
	216,388	87,983

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

35. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	HK$'000
Cost of investment in unlisted associates	**4**	4
Share of post-acquisition losses *(Note)*	**(22,048)**	(22,033)
	(22,044)	(22,029)

At 31 December 2006, the balance is classified under non-current liabilities. Last year's balance had been reclassified from non-current assets to non-current liabilities in order to conform with current year's presentation.

35. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Continued)

Details of the incorporated principal associate of the Group as at 31 December 2006 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

Note: The Group has contractual obligations to share the net liabilities of associates.

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

	2006 HK$'000	2005 HK$'000
Total assets	**92,182**	88,604
Total liabilities	**(136,271)**	(132,663)
Net liabilities	**(44,089)**	(44,059)
Group's share of net liabilities of associates	**(22,044)**	(22,029)
Turnover	**25,476**	145,548
(Loss) profit for the year	**(31)**	1,741
Group's share of results of associates for the year	**(15)**	1,655

36. AMOUNT DUE TO AN ASSOCIATE

The current amount due to an associate is unsecured, interest-free and repayable on demand except for an advance from an associate of HK$3,500,000 (2005: Nil) which carries interest at one month HIBOR.

The non-current amount due to an associate is unsecured, interest-free and has no fixed repayment terms. The associate has agreed not to demand repayment within twelve months from the balance sheet date and the balance is therefore shown as non-current liabilities. The non-current amount is carried at amortised cost using effective interest of 5.4% per annum.

37. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

38. ACQUISITION OF SUBSIDIARY

On 15 June 2005, Profound Success Limited ("PSL"), a wholly-owned subsidiary of the Company acquired an additional 49% of the issued share capital of Kaden Construction Limited (formerly known as Kier Hong Kong Limited) ("Kaden") at a consideration of HK$21,630,000. The acquisition has been accounted for by the acquisition method of accounting. Prior to the acquisition, PSL held 49.5% of the issued share capital of Kaden. Immediately upon the completion of the acquisition, Kaden became a 98.5% owned subsidiary of the Group.

38. ACQUISITION OF SUBSIDIARY (Continued)

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

	Kaden'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

38. ACQUISITION OF SUBSIDIARY (Continued)

Kaden contributed HK$118,258,000 revenue and nil to the Group's profit for the year ended 2005 between the date of acquisition and as at 31 December 2005.

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 2005. 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 2006, the Group had committed to increase its investment in a joint venture established in the PRC by approximately HK$11,952,000 (2005: Nil). The joint venture is principally engaged in civil engineering activities in the PRC. This commitment is expected to be completed during 2007.

(b) Operating lease commitments

Lessee

At 31 December 2006, 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:

	2006	2005
	HK$'000	HK$'000
Within one year	**3,151**	3,402
In the second to fifth years inclusive	**1,926**	4,818
	5,077	8,220

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. CONTINGENT LIABILITY

	2006 HK$'000	2005 HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**54,692**	37,803

41. MAJOR NON-CASH TRANSACTION

During the year, the repayment of other borrowings amounting to HK$28,302,000 is by way of a disposal of the Group's entire equity interest in SEICL for a consideration of HK$28,302,000.

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 of HK$8,076,000 (2005: HK$8,397,000) represents contributions paid or 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 in respect of the current accounting period.

43. RELATED PARTY TRANSACTIONS

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

	2006 HK$'000	2005 HK$'000
Immediate holding company		
Corporate guarantee fee (expense) refunded	(913)	3,337
Fellow subsidiaries		
Purchase of goods	–	3,047
Associates		
Interest expense	158	–
Secretarial and management service income	850	850
Value of construction work certified	–	13,582
Consultancy fee paid	–	11,312
Jointly controlled entities		
Management service income	–	4,487

Details of the balances with associates, jointly controlled entities, intermediate holding company, fellow subsidiaries, minority shareholders and immediate holding company are disclosed in the consolidated balance sheet and respective notes to the consolidated financial statements.

Compensation of key management personnel

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

	2006 HK$'000	2005 HK$'000
Short-term benefits	12,611	15,522
Post-employment benefits	679	554
	13,290	16,076

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 2006, Wai Kee provided corporate guarantees amounting to HK$64,035,000 (2005: HK$66,038,000) to several banks to secure the general banking facilities granted to the Group.

At 31 December 2006 and 31 December 2005, 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. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	HK$'000
Investment in a subsidiary	**60,000**	60,000
Amounts due from subsidiaries	**49,375**	37,869
Other current assets	**128**	285
Amounts due to subsidiaries	**–**	(927)
Other current liabilities	**(4,457)**	(3,474)
Bank loans	**(52,868)**	(40,000)
	52,178	53,753
Share capital	**78,141**	78,141
Convertible preference share capital	**15,000**	15,000
Reserves	**(40,963)**	(39,388)
	52,178	53,753

45. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered 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
Kaden Construction Limited (formerly known as Kier Hong Kong Limited)	United Kingdom	Hong Kong	GBP6,500,000	98.85	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares	100	Civil engineering
			HK$24,000,000 Non-voting deferred shares	100	

45. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group	Principal activities
				%	
Leader Construction Company Limited	Hong Kong	Hong Kong	HK$2	100	Provision of administrative and management services to group companies
Leader Construction Overseas Limited	Hong Kong	Hong Kong	HK$20	100	Investment holding
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
Leader Marine Cont. L.L.C.	Sharjah, U.A.E.	U.A.E.	Dh300,000	100	First class cont. relating buildings, harbour contracts
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

45. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
W K Aviation Engineering Company Limited	Hong Kong	Hong Kong	HK$10	70	Engineering
Wai Kee China Construction Company Limited	Hong Kong	Hong Kong	HK$10,000,000	100	Civil engineering
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(上海)市政工程咨詢有限公司 *(note 3)*	PRC	PRC	US$70,000	100	Consulting environmental engineering
惠科(上海)航空工程咨詢有限公司 *(note 3)*	PRC	PRC	HK$1,000,000	70	Consulting aviation business

45. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
惠記環保工程(上海)有限公司 *(note 3)*	PRC	PRC	US$800,000	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.

3. The company is a foreign owned enterprise registered in the PRC.

Except for Top Tactic Holdings Limited, all subsidiaries are indirectly held by the Company.

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.