1. CORPORATE INFORMATION

Chinney Alliance Group Limited is a limited liability company incorporated Bermuda with its shares listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda, and the Company's head office and principal place of business is located at 23rd Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

During the year, the Group was engaged in the following principal activities:

- trading of plastic and chemical products
- distribution and installation of building supplies, electrical and mechanical products
- provision of building related contracting services for both public and private sectors, including engineering contracting services in the air-conditioning industry and the provision of maintenance services
- investment holding

During the current year, the Group acquired the entire equity interest in Shun Cheong Investments Limited and its subsidiaries (the "SCI Group") which are engaged in the provision of building related contracting services for both public and private sectors.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, land and buildings and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand, except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.1 BASIS OF PREPARATION *(continued)*

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *the Effects of Changes in Foreign Exchange Rates*

Upon the adoption of HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(b) HKAS 39 *Financial Instruments: Recognition and Measurement* (continued)

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The adoption of this amendment has had no material impact on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-INT 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK (IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transactions
HK (IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. This HKFRS replaces HKAS 14 *Segment Reporting* and has main changes on the identification of segments and the measurement of segment information.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

ASSOCIATES

An associate is an entity, not being a subsidiary, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOODWILL

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost, and is subsequently measured at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, goodwill and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% – 3%
Leasehold improvements	Over the lease terms or 20% – 33$^1/_3$%
Furniture, fixtures and equipment	10% – 33$^1/_3$%
Motor vehicles	15% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis; and option pricing models.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(continued)*

Assets carried at amortised cost *(continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

FINANCIAL LIABILITIES AT AMORTISED COST (INCLUDING INTEREST-BEARING LOANS AND BORROWINGS)

Financial liabilities including trade and other payables and interest-bearing bank loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and, an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CONSTRUCTION CONTRACTS

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, depends on the nature of the contract works, measured either by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract or to the percentage of certified work performed to date to the estimated total sum of the relevant contracts. When the outcome of the contracts cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that is probable to be recoverable.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the year plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, on the completion of the transactions;

(d) rental income, on a time proportion basis over the lease terms; and

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and an associate are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and an associate are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and the associate which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Company or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EMPLOYEE BENEFITS

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

The Group operates defined contribution retirement benefits schemes, including Mandatory Provident Fund retirement benefits schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance and an Occupational Retirement Schemes Ordinance retirement benefits scheme (the "ORSO Scheme"), for all of its employees who are eligible to participate in the MPF Schemes or ORSO Scheme.

Under the MPF Schemes, contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Schemes. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Schemes.

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees' basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of 30% to 90% after completing three to nine years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

Prior to the MPF Schemes becoming effective, certain member companies of the Group operated defined contribution provident fund schemes (the "Provident Funds") under the Occupational Retirement Schemes Ordinance for those employees who were eligible to participate. The Provident Funds operated in a similar way to the MPF Schemes, except that when an employee left the Provident Funds prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. Upon implementation of the MPF Schemes, the Provident Funds have been frozen and no further contributions have been made by the Group or the eligible employees after that date. The eligible employees are entitled to receive their funds in accordance with the rules of the Provident Funds when they leave the Group.

The assets of the above-mentioned schemes are held separately from those of the Group in independently administered funds.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

EMPLOYEE BENEFITS *(continued)*

Share-based payment transactions

The Company had a share option scheme, which expired on 23 September 2003, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

3.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.2 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

JUDGEMENTS

The preparation of the Group's financial statements requires the use of estimates and assumptions about future events and conditions. In this connection, the directors consider that the significant areas where management's judgement is necessary are those in relation to (i) the valuation of the Group's available-for-sale financial assets and equity investments at fair value through profit or loss; (ii) the provision for foreseeable losses on construction contracts; and (iii) the recognition of losses on the Group's trade and other receivables and retention monies receivable.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable. It should be noted that actual results could differ from those estimates.

ESTIMATION UNCERTAINTY

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 discussed below.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$8,922,000 (2005: Nil). More details are given in note 19.

The Group tests annually whether property, plant and equipment has suffered any impairment, in accordance with the accounting policy stated in note 3.1. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates such as future revenue and discount rates.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- the plastic and chemical products segment consists of importing, marketing and distributing plastic and chemical products;
- the building supplies, electrical and mechanical products segment consists of importing, marketing, distributing and installing building supplies, electrical and mechanical products;
- the building related contracting services segment consists of contracting services for both public and private sectors, including engineering contracting services in the air-conditioning industry and the provision of maintenance services which were treated as a separate segment in the prior years.

In June 2005, the Group discontinued its electrical appliances business segment which consisted of importing, marketing and distributing electrical appliances.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(continued)*

(a) Business Segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Continuing operations								Discontinued operation			
	Plastic and chemical products		Building supplies, electrical and mechanical products		Building related contracting services		Total		Electrical appliances business		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**785,879**	883,594	**54,047**	51,968	**628,595**	79,439	**1,468,521**	1,015,001	**–**	13,031	**1,468,521**	1,028,032
Other revenue	**2,414**	2,093	**395**	335	**13**	61	**2,822**	2,489	**–**	–	**2,822**	2,489
Total	**788,293**	885,687	**54,442**	52,303	**628,608**	79,500	**1,471,343**	1,017,490	**–**	13,031	**1,471,343**	1,030,521
Segment results:												
Operating profit/(loss)	**28,055**	34,575	**(1,033)**	(5,411)	**11,014**	1,922	**38,036**	31,086	**–**	(2,149)	**38,036**	28,937
Surplus arising from revaluation of land and buildings	**4,477**	5,185	**–**	76	**–**	–	**4,477**	5,261	**–**	–	**4,477**	5,261
Changes in fair value of investment properties/properties held for resale	**2,420**	2,914	**1,460**	–	**–**	–	**3,880**	2,914	**–**	–	**3,880**	2,914
	34,952	42,674	**427**	(5,335)	**11,014**	1,922	**46,393**	39,261	**–**	(2,149)	**46,393**	37,112
Interest income and unallocated gains							**2,065**	3,107	**–**	494	**2,065**	3,601
Unallocated expenses							**(8,405)**	(10,725)	**–**	–	**(8,405)**	(10,725)
Fair value gains/(losses) on equity investments at fair value through profit or loss, net							**2,136**	(2,656)	**–**	–	**2,136**	(2,656)
Impairment of available-for-sale investments							**(340)**	–	**–**	–	**(340)**	–
Loss on disposal of an associate							**(6,180)**	–	**–**	–	**(6,180)**	–
Finance costs							**(12,981)**	(10,754)	**–**	(305)	**(12,981)**	(11,059)
Share of losses of associates							**(1,619)**	(9,140)	**–**	–	**(1,619)**	(9,140)
Profit/(loss) before tax							**21,069**	9,093	**–**	(1,960)	**21,069**	7,133
Tax							**(4,038)**	(3,681)	**–**	–	**(4,038)**	(3,681)
Profit/(loss) for the year							**17,031**	5,412	**–**	(1,960)	**17,031**	3,452
Attributable to:												
Equity holders of the parent							**16,997**	5,371	**–**	(1,960)	**16,997**	3,411
Minority interests							**34**	41	**–**	–	**34**	41
							17,031	5,412	**–**	(1,960)	**17,031**	3,452

4. SEGMENT INFORMATION *(continued)*

(a) Business Segments *(continued)*

	Continuing operations										Discontinued operation			
	Plastic and chemical products		Building supplies, electrical and mechanical products		Building related contracting services		Eliminations		Total		Electrical appliances business		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities:														
Segment assets	**348,119**	325,321	**16,352**	19,384	**392,675**	35,014	**(6,597)**	(5,790)	**750,549**	373,929	**–**	–	**750,549**	373,929
Interests in associates									**1,429**	19,139	**–**	–	**1,429**	19,139
Corporate and other unallocated assets									**59,676**	20,093	**–**	–	**59,676**	20,093
Bank overdrafts included in segment assets	**–**	–	**27,418**	23,419	**7,790**	1,993	**–**	–	**35,208**	25,412	**–**	–	**35,208**	25,412
Total assets									**846,862**	438,573	**–**	–	**846,862**	438,573
Segment liabilities	**55,523**	48,691	**84,810**	26,050	**269,523**	21,788	**(6,597)**	(5,790)	**403,259**	90,739	**–**	–	**403,259**	90,739
Corporate and other unallocated liabilities									**165,633**	164,954	**–**	–	**165,633**	164,954
Bank overdrafts included in segment assets	**–**	–	**27,418**	23,419	**7,790**	1,993	**–**	–	**35,208**	25,412	**–**	–	**35,208**	25,412
Total liabilities									**604,100**	281,105	**–**	–	**604,100**	281,105
Other segment information:														
Capital expenditure	**–**	128	**351**	326	**2,782**	115	**–**	–	**3,133**	569	**–**	4	**3,133**	573
Depreciation	**551**	624	**673**	588	**684**	47	**–**	–	**1,908**	1,259	**–**	216	**1,908**	1,475
Other non-cash expenses:														
Surplus arising from revaluation of land and buildings	**(4,477)**	(5,185)	**–**	(76)	**–**	–	**–**	–	**(4,477)**	(5,261)	**–**	–	**(4,477)**	(5,261)
Changes in fair value of investment properties/ properties held for resale	**(2,420)**	(2,914)	**(1,460)**	–	**–**	–	**–**	–	**(3,880)**	(2,914)	**–**	–	**(3,880)**	(2,914)

4. SEGMENT INFORMATION *(continued)*

(b) Geographical Segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	Continuing operations						Discontinued operation			
	Hong Kong		Macau and Mainland China		Total		Hong Kong		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**1,292,119**	972,534	**176,402**	42,467	**1,468,521**	1,015,001	**–**	13,031	**1,468,521**	1,028,032
Other revenue	**2,427**	2,489	**395**	–	**2,822**	2,489	**–**	–	**2,822**	2,489
	1,294,546	975,023	**176,797**	42,467	**1,471,343**	1,017,490	**–**	13,031	**1,471,343**	1,030,521
Other segment information:										
Segment assets	**698,302**	404,391	**113,352**	8,770	**811,654**	413,161	**–**	–	**811,654**	413,161
Bank overdrafts included in segment assets	**35,208**	25,412	**–**	–	**35,208**	25,412	**–**	–	**35,208**	25,412
					846,862	438,573	**–**	–	**846,862**	438,573
Capital expenditure	**2,771**	532	**362**	37	**3,133**	569	**–**	4	**3,133**	573

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts, and an appropriate proportion of revenue from construction contracts during the year.

An analysis of the Group's revenue, other income and gain is as follows:

	Notes	2006 HK$'000	2005 HK$'000
Revenue			
Continuing operations			
Sale of goods		**878,402**	964,281
Construction contracts		**590,119**	50,720
		1,468,521	1,015,001
Discontinued operation	*12*		
Sale of goods		–	11,834
Construction contracts		–	1,197
		–	13,031
		1,468,521	1,028,032
Other income			
Continuing operations			
Bank interest income		**3,403**	1,317
Commission income		**1,651**	2,489
Gross rental income		**455**	152
Others		**2,080**	1,576
		7,589	5,534
Discontinued operation	*12*		
Gross rental income		–	391
Others		–	103
		–	494
		7,589	6,028
Gain			
Gain on disposal of subsidiaries	*37*	–	1,128

6. FINANCE COSTS

	Group	
	2006 HK$'000	2005 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**12,981**	11,059
Attributable to continuing operations reported in the consolidated income statement	**12,981**	10,754
Attributable to a discontinued operation *(note 12)*	–	305
	12,981	11,059

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Continuing operations 2006 HK$'000	Continuing operations 2005 HK$'000	Discontinued operation 2006 HK$'000	Discontinued operation 2005 HK$'000	Consolidated 2006 HK$'000	Consolidated 2005 HK$'000
Auditors' remuneration:							
Current year provision		**1,787**	1,100	**–**	–	**1,787**	1,100
Underprovision in prior years		**148**	69	**–**	–	**148**	69
		1,935	1,169	**–**	–	**1,935**	1,169
Employee benefits expenses (including directors' remuneration *(note 8)*):							
Wages and salaries		**50,834**	41,556	**–**	2,652	**50,834**	44,208
Pension scheme contributions		**2,803**	2,433	**–**	149	**2,803**	2,582
Less: Forfeited contributions		**(217)**	(140)	**–**	(41)	**(217)**	(181)
Net pension scheme contributions*		**2,586**	2,293	**–**	108	**2,586**	2,401
		53,420	43,849	**–**	2,760	**53,420**	46,609
Cost of inventories sold		**800,337**	878,293	**–**	8,444	**800,337**	886,737
Cost of services provided		**562,718**	49,172	**–**	1,552	**562,718**	50,724
Depreciation	*15*	**1,908**	1,259	**–**	216	**1,908**	1,475
Minimum lease payments under operating leases in respect of land and buildings		**3,817**	3,519	**–**	728	**3,817**	4,247
Impairment/(write-back of impairment) of accounts receivable#		**(1,105)**	(5,502)	**–**	18	**(1,105)**	(5,484)
Write-down/(write-back) of inventories to net realisable value included in cost of inventories sold		**(579)**	4,351	**–**	(1,561)	**(579)**	2,790
Provision for impairment of other assets#	*20*	**–**	938	**–**	–	**–**	938
Fair value (gains)/losses on equity investments at fair value through profit or loss, net#		**(2,136)**	2,656	**–**	–	**(2,136)**	2,656
Loss/(gain) on disposal of items of properties, plant and equipment#		**163**	(32)	**–**	–	**163**	(32)
Gain on disposal of available-for-sale investments#		**(499)**	–	**–**	–	**(499)**	–
Impairment of available-for-sale investments#		**340**	–	**–**	–	**340**	–
Foreign exchange differences, net#		**(3,104)**	(2,703)	**–**	–	**(3,104)**	(2,703)

* *As at 31 December 2006, the Group did not have significant forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil).*

\# *These expenses/(income) are included in "Other operating income, net" on the face of the consolidated income statement.*

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**138**	150
Other emoluments:		
Salaries, allowances and benefits in kind	**3,714**	4,206
Performance related bonuses	**800**	1,088
Pension scheme contributions	**272**	317
	4,786	5,611
	4,924	5,761

(a) Independent Non-executive Directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
William Gage McAfee	**50**	50
David Chung-Shing Wu	**50**	50
Tian-Quan Mo (resigned on 4 October 2006)	**38**	50
	138	150

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive Directors and a Non-executive Director

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006					
Executive directors:					
James Sai-Wing Wong	**–**	**–**	**–**	**–**	**–**
Sek-Kee Yu	**–**	**1,646**	**–**	**149**	**1,795**
Frank Kwok-Kit Chu	**–**	**1,918**	**700**	**108**	**2,726**
Peter Chi-Chung Luk (resigned on 11 April 2006)	**–**	**150**	**100**	**15**	**265**
	–	**3,714**	**800**	**272**	**4,786**
Non-executive director:					
Herman Man-Hei Fung	**–**	**–**	**–**	**–**	**–**
	–	**3,714**	**800**	**272**	**4,786**
2005					
Executive directors:					
James Sai-Wing Wong	–	–	–	–	–
Sek-Kee Yu	–	1,646	–	149	1,795
Frank Kwok-Kit Chu	–	1,910	1,000	108	3,018
Peter Chi-Chung Luk	–	650	88	60	798
	–	4,206	1,088	317	5,611
Non-executive director:					
Herman Man-Hei Fung	–	–	–	–	–
	–	4,206	1,088	317	5,611

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors in respect of their services to the Group. Further details of the share option scheme and the directors' options remaining outstanding under the scheme at the balance sheet date are set out in note 35 to the financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group included two (2005: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances and other benefits in kind	**2,633**	2,898
Bonuses paid and payable	**1,697**	1,800
Pension scheme contributions	**116**	135
	4,446	4,833

The number of the above non-director, highest paid employees whose remuneration fell within the following bands is as follows:

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

During the year, no share options were granted to the non-director, highest paid employees in respect of their services to the Group. Further details of the share option scheme and the options remaining outstanding under the scheme at the balance sheet date are included in the disclosures in note 35 to the financial statements.

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong:		
Charge for the year	**1,972**	1,927
Underprovision in prior years	**3**	37
Current – Elsewhere	**250**	358
Deferred *(note 33)*	**1,813**	1,359
Total tax charge for the year	**4,038**	3,681

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax charge for the year is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax (including loss from a discontinued operation)	**21,069**	7,133
Tax at Hong Kong profits tax rate of 17.5% (2005:17.5%)	**3,687**	1,248
Effect of different rates for companies operating in other jurisdictions	**(219)**	(439)
Underprovision in prior years	**3**	37
Income not subject to tax	**(2,243)**	(1,891)
Expenses not deductible for tax	**715**	1,071
Tax losses utilised from previous periods	**(305)**	(173)
Tax losses not recognised	**1,916**	2,181
Losses attributable to associates	**283**	1,599
Others	**201**	48
Tax charge for the year	**4,038**	3,681
Represented by:		
Tax charge attributable to continuing operations reported in the consolidated income statement	**4,038**	3,681
Tax charge attributable to a discontinued operation *(note 12)*	**–**	–
	4,038	3,681

10. TAX *(continued)*

The share of tax attributable to an associate amounting to HK$4,000 (2005: HK$116,000) is included in "Share of losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$8,315,000 (2005: HK$522,000) which has been dealt with in the financial statements of the Company *(note 36(b))*.

12. DISCONTINUED OPERATION

The Group discontinued the wholesaling of electrical appliances business in June 2005 as such business had not been performing in the previous few years. The remaining stocks were sold to the new distributor and all staff were retrenched in June 2005. As at 31 December 2006, no assets or liabilities of the Group were attributable to this discontinued operation.

The results attributable to the discontinued operation for the year are presented below:

	2006 ***HK$'000***	2005 *HK$'000*
Revenue	–	13,031
Cost of sales/services provided	–	(9,996)
Gross profit	–	3,035
Other income	–	494
Selling and distribution costs	–	(1,116)
Administrative expenses	–	(4,039)
Other operating expenses	–	(29)
Finance costs	–	(305)
Loss before tax	–	(1,960)
Tax	–	–
Loss for the year	–	(1,960)

12. DISCONTINUED OPERATION *(continued)*

The net cash flows attributable to the discontinued operations are as follows:

	2006	2005
	HK$'000	*HK$'000*
Net cash inflow from operating activities	–	4,040
Net cash inflow from financing activities	–	537
Net cash inflow	–	4,577
LOSS PER SHARE		
Basic, from the discontinued operation	–	(1.19 cents)
		(restated)
Diluted, from the discontinued operation	**N/A**	N/A

The calculations of basic loss per share from the discontinued operation are based on:

	2006	2005
Loss attributable to equity holders of the parent from the discontinued operation	**N/A**	HK$(1,960,000)
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**N/A**	164,525,336
		(restated)

The weighted average number of ordinary shares in issue for year ended 31 December 2005 has been adjusted for the effect of the Open Offer *(note 34)* during the current year.

13. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK$0.01 (2005: Nil) per ordinary share	**3,966**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the effect of the Open Offer *(note 34)* during the year.

Diluted earnings per share amounts for the years ended 31 December 2006 and 31 December 2005 have not been disclosed, as the outstanding share options had an anti-dilutive effect on the basic earnings per share since their exercise prices were higher than the average market price of the Company's ordinary shares during both years.

The calculations of basic earnings/(loss) per share are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent		
From continuing operations	**16,997**	5,371
From a discontinued operation	**–**	(1,960)
Profit attributable to ordinary equity holders of the parent	**16,997**	3,411

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year	**207,761,070**	164,525,336
		(restated)

The weighted average number of ordinary shares in issue for year ended 31 December 2005 has been adjusted for the effect of the Open Offer *(note 34)* during the current year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006					
At 31 December 2005 and 1 January 2006:					
Cost or valuation	23,031	2,938	7,868	688	34,525
Accumulated depreciation	(166)	(2,699)	(7,403)	(405)	(10,673)
Net carrying amount	22,865	239	465	283	23,852
At 1 January 2006, net of accumulated depreciation and impairment	22,865	239	465	283	23,852
Additions	–	34	370	69	473
Disposals	–	–	(302)	–	(302)
Acquisition of subsidiaries *(note 38)*	27	1,880	753	–	2,660
Surplus on revaluation credited to asset revaluation reserve	636	–	–	–	636
Surplus on revaluation credited to the consolidated income statement	4,477	–	–	–	4,477
Depreciation provided during the year	(517)	(747)	(468)	(176)	(1,908)
Transfer to investment properties *(note 16)*	(2,901)	–	–	–	(2,901)
Exchange realignment	–	–	1	–	1
At 31 December 2006, net of accumulated depreciation and impairment	**24,587**	**1,406**	**819**	**176**	**26,988**
At 31 December 2006					
Cost or valuation	24,587	2,876	5,421	891	33,775
Accumulated depreciation and impairment	–	(1,470)	(4,602)	(715)	(6,787)
Net carrying amount	**24,587**	**1,406**	**819**	**176**	**26,988**
Analysis of cost or valuation:					
At cost	–	2,876	5,421	891	9,188
At 31 December 2006 valuation	24,587	–	–	–	24,587
	24,587	**2,876**	**5,421**	**891**	**33,775**

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005					
At 31 January 2005:					
Cost or valuation	35,108	4,061	16,424	1,499	57,092
Accumulated depreciation	(149)	(3,452)	(15,708)	(1,238)	(20,547)
Net carrying amount	34,959	609	716	261	36,545
At 1 January 2005, net of accumulated depreciation and impairment	34,959	609	716	261	36,545
Additions	–	2	303	268	573
Disposals	–	(121)	(16)	(37)	(174)
Disposal of subsidiaries *(note 37)*	(11,500)	–	(182)	(23)	(11,705)
Surplus on revaluation credited to asset revaluation reserve	1,873	–	–	–	1,873
Surplus on revaluation credited to the consolidated income statement	5,261	–	–	–	5,261
Depreciation provided during the year	(629)	(252)	(406)	(188)	(1,475)
Transfer to investment properties *(note 16)*	(7,099)	–	–	–	(7,099)
Exchange realignment	–	1	50	2	53
At 31 December 2005, net of accumulated depreciation and impairment	22,865	239	465	283	23,852
At 31 December 2005					
Cost or valuation	23,031	2,938	7,868	688	34,525
Accumulated depreciation and impairment	(166)	(2,699)	(7,403)	(405)	(10,673)
Net carrying amount	22,865	239	465	283	23,852
Analysis of cost or valuation:					
At cost	828	2,938	7,868	688	12,322
At 31 December 2005 valuation	22,203	–	–	–	22,203
	23,031	2,938	7,868	688	34,525

The Group's land and buildings were revalued individually on 31 December 2006 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at an open market value of HK$24,587,000 based on their existing use. Revaluation surpluses of HK$4,477,000 and HK$636,000, resulting from the above valuations, have been credited to the consolidated income statement and the asset revaluation reserve, respectively.

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Details of the land and buildings are as follows:

	2006	2005
	HK$'000	*HK$'000*
Medium-term leases:		
Hong Kong	**23,830**	19,300
Mainland China	**757**	3,565
	24,587	22,865

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$23,679,000 (2005: HK$26,123,000).

The net carrying value of land and buildings pledged to secure banking facilities granted to the Group amounted to HK$23,350,000 (2005: HK$19,300,000) *(note 30)*.

Company

	Furniture, fixtures and equipment
	HK$'000
31 December 2006	
At 31 December 2005 and 1 January 2006:	
Cost	287
Accumulated depreciation	(271)
Net carrying amount	16
At 1 January 2006, net of accumulated depreciation	16
Depreciation provided during the year	(5)
At 31 December 2006, net of accumulated depreciation	**11**
At 31 December 2006:	
Cost	287
Accumulated depreciation	(276)
Net carrying amount	**11**

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Furniture, fixtures and equipment *HK$'000*
31 December 2005	
At 1 January 2005:	
Cost	280
Accumulated depreciation	(250)
Net carrying amount	30
At 1 January 2005, net of accumulated depreciation	30
Additions	7
Depreciation provided during the year	(21)
At 31 December 2005, net of accumulated depreciation	16
At 31 December 2005:	
Cost	287
Accumulated depreciation	(271)
Net carrying amount	16

16. INVESTMENT PROPERTIES

	Group	
	2006 *HK$'000*	2005 *HK$'000*
Carrying amount at 1 January	**13,049**	–
Transfer from property, plant and equipment *(note 15)*	**2,901**	7,099
Transfer from properties held for resale *(note 21)*	**–**	5,950
Fair value changes	**3,880**	–
Carrying amount at 31 December	**19,830**	13,049

The Group's investment properties were revalued on 31 December 2006 by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, on an open market, existing use basis. These investment properties were vacant as at 31 December 2006.

17. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**185,600**	185,600
Due from subsidiaries	**802,544**	783,217
Due to subsidiaries	**(9,532)**	(9,538)
	978,612	959,279
Impairment	**(846,139)**	(861,237)
	132,473	98,042

The amounts due from subsidiaries included in the Company's current assets of HK$14,496,000 (2005: HK$11,985,000) are unsecured, interest-free and are repayable on demand or within one year.

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Best Treasure Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100%	Investment holding
Chinney Alliance Corporate Treasury Limited	Hong Kong	Ordinary HK$2	–	100%	Treasury function
Chinney Alliance Engineering Limited	Hong Kong	Ordinary HK$10,000	–	100%	Distribution and installation of mechanical, electrical and building supplies products
Chinney Alliance Trading (BVI) Limited	British Virgin Islands/ Hong Kong	Ordinary HK$360,001	100%	–	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Chinney E & M (Maintenance) Limited**	Hong Kong	Ordinary HK$100	–	100%	Maintenance of air-conditioning, electrical generators, water pumps and fire prevention and fighting systems
DMT-Jacobson Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US$2,000,000	–	100%	Investment holding
DMT International Hong Kong Limited	Hong Kong	Ordinary HK$1,000; Non-voting deferred HK$5,156,700	–	100%	Agency trading of industrial materials
Gina Enterprises Limited	Hong Kong	Ordinary HK$2	–	100%	Property holding
Jacobson van den Berg (China) Limited*	Hong Kong	Ordinary HK$1,000,000	–	100%	Trading of electrical and mechanical products
Jacobson van den Berg (Hong Kong) Limited	Hong Kong	Ordinary HK$1,000; Non-voting deferred HK$35,486,600	–	100%	Investment holding and agency trading of industrial products
Lei Kee Development Company Limited	Hong Kong	Ordinary HK$2	–	100%	Property holding
Shun Cheong Building Services (Macau) Limited**	Macau	Ordinary MOP100,000	–	100%	Installation and maintenance of electrical, mechanical, heat ventilation and air-conditioning systems

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of equity interest attributable to the Group Direct	Percentage of equity interest attributable to the Group Indirect	Principal activities
Shun Cheong Electrical Engineering Company Limited**	Hong Kong	"A" ordinary HK$100,000; Non-voting deferred HK$4,000,000	–	100%	Design, installation, repair and maintenance of electrical and mechanical systems
Shun Cheong Investments Limited**	British Virgin Islands/ Hong Kong	Ordinary HK$100	–	100%	Investment holding
Shun Cheong Management Limited**	Hong Kong	Ordinary HK$2	–	100%	Provision of management services
Shun Cheong Trade and Development Company Limited**	Hong Kong	Ordinary HK$663,000	–	100%	Trading of electrical generators
Shun Wing Construction & Engineering Company Limited**	Hong Kong	Ordinary HK$1,000	–	50.1%	Provision of building and electrical maintenance services
Tegan Holdings Limited	Hong Kong	Ordinary HK$2	–	100%	Property holding
Westco Airconditioning Limited**	Hong Kong	Ordinary HK$4,100,000	–	100%	Design, installation and maintenance of heating, ventilation and air-conditioning systems
Westco Chinney Limited*	Hong Kong	Ordinary HK$3,000,000	–	100%	Sale and installation of air-conditioning systems

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

** *During the year, the Group acquired the entire equity interest in Shun Cheong Investments Limited for a consideration of HK$35,000,000. Further details of this acquisition are included in note 38 to the financial statements.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed 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.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed shares, at cost	**–**	–	**–**	87,723
Share of net assets	**8,629**	26,339	**–**	–
Goodwill on acquisition	**–**	2,298	**–**	–
Impairment of goodwill	**–**	(2,298)	**–**	–
Impairment	**(7,200)**	(7,200)	**–**	(70,124)
	1,429	19,139	**–**	17,599

During the year, the Group disposed of its entire equity interest in Shun Cheong Holdings Limited ("Shun Cheong"), an associate of the Group. Details of the transaction are set out in note 39(b)(iii) to the financial statements.

At 31 December 2005, the market value of the listed ordinary shares of Shun Cheong held by the Group was HK$10,409,250.

Particulars of the associate at the balance sheet date are as follows:

Name	Place of registration and operations	Particulars of registered capital held	Percentage of equity interest attributable to the Group	Principal activities
Jiangxi Kaitong New Materials Company Limited* 江西省凱通新材料科技有限公司 ("Jiangxi Kaitong")	People's Republic of China	RMB12,450,000	24.9%	Manufacture of stainless steel and plastic compound pipes

* *Jiangxi Kaitong is not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. This associate is a sino-foreign joint venture with a duration of business of 15 years which commenced from 11 October 2000.*

The voting power held and the profit sharing arrangement in relation to the associate are both the same as the equity interest shown above. The financial statements of the above associate are coterminous with those of the Group. The following table illustrates the summarised financial information of Jiangxi Kaitong extracted from its financial statements:

	2006	2005
	HK$'000	*HK$'000*
Assets	**30,139**	30,750
Liabilities	**(309)**	(480)
Revenues	**440**	673
Loss for the year	**(2,307)**	(1,973)

19. GOODWILL

	2006 HK$'000	2005 HK$'000
Carrying amount at 1 January	–	–
Acquisition of subsidiaries *(note 38)*	8,922	–
Carrying amount at 31 December	8,922	–

Goodwill acquired through business combination has been allocated to the reportable segment of building related contracting services.

IMPAIRMENT TESTING OF GOODWILL

For impairment testing, goodwill acquired through business combinations has been allocated to one single cash-generating unit which involves in building related contracting services.

The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management. The discount rate applied to the cash flow projections is 6%.

Key assumptions were used in the value in use calculation for 31 December 2006 are as follows:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the estimated gross margins related to signed but uncompleted construction contracts in hand.

Discount rate – The discount rate used is before tax and reflect specific risks relating to the relevant unit.

20. OTHER ASSETS

	Group and Company	
	2006 HK$'000	2005 HK$'000
Club memberships, at cost	1,220	1,220
Provision for impairment	(938)	(938)
	282	282

21. PROPERTIES HELD FOR RESALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 January	–	3,036
Fair value adjustment upon reclassification to investment properties	–	2,914
Transfer to investment properties *(note 16)*	–	(5,950)
	–	–

22. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**59,614**	79,121
Finished goods	**7,199**	11,950
	66,813	91,071

23. CONSTRUCTION CONTRACTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Gross amount due from contract customers	**41,508**	5,458
Gross amount due to contract customers	**(76,067)**	(1,412)
	(34,559)	4,046
Contract costs incurred plus recognised profits less recognised losses to date	**3,201,024**	135,818
Less: Progress billings	**(3,235,583)**	(131,772)
	(34,559)	4,046

At 31 December 2006, the retentions held by customers for contract works included in retention monies receivable over one year and the retention monies receivable included in current assets of the Group amounted to approximately HK$17,548,000 (2005: HK$3,672,000) and HK$13,818,000 (2005: HK$1,781,000), respectively.

No advances were received from customers for contract works in both years.

24. TRADE AND BILLS RECEIVABLES

	Group 2006 HK$'000	2005 HK$'000
Trade and bills receivables	**388,523**	186,990

The Group grants a credit period to its customers ranging from cash on delivery to 60 days. A longer credit period may be allowed to customers with good business relationships. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the payment due date, is as follows:

	Group 2006 HK$'000	2005 HK$'000
Current to 30 days	**253,139**	132,927
31 to 60 days	**67,628**	20,118
61 to 90 days	**15,751**	11,377
Over 90 days	**52,005**	22,568
	388,523	186,990

Included in the trade receivable balances as at 31 December 2006 were amounts due from Chinney Construction Company, Limited ("Chinney Construction") of approximately HK$27,686,000 which arose from the provision of various building and maintenance services. Please refer to note 39 for details of related party transactions with Chinney Construction.

In the prior year, included in the Group's trade receivables were amounts due from an associate of the Group, of HK$2,003,000, which were repayable on credit terms similar to those offered to the major customers of the Group.

25. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amount due from related companies, disclosed pursuant to Section 161B of the Companies Ordinance, is as follows:

Group

	Notes	**2006** **HK$'000**	2005 HK$'000
Chinney Construction	*(i)*	**171**	–
Hon Kwok Land Investment (Shenzhen) Co., Ltd.	*(ii)*	**28**	2,541
Shun Cheong Electrical Engineering Company Limited	*(iii)*	**–**	183
Tinhawk Company Limited ("Tinhawk")	*(iv)*	**2,057**	–
Ever Billion Engineering Limited ("Ever Billion")	*(iv)*	**6,125**	–
		8,381	2,724

Notes:

(i) Chinney Construction is a subsidiary of Chinney Investments, Limited ("Chinney Investments", a major shareholder of the Company) of which Dr. James Sai-Wing Wong, a director of the Company, is a director of and has beneficial interest. Mr. Sek-Kee Yu, a director of the Company, is also a director of Chinney Construction. The maximum amount due from Chinney Construction during the year was HK$171,000.

(ii) Hon Kwok Land Investment (Shenzhen) Co., Ltd. is a wholly-owned subsidiary of Hon Kwok Land Investment Company, Limited ("Hon Kwok"), which is a subsidiary of Chinney Investments of which Dr. James Sai-Wing Wong, a director of the Company, is a director of and has beneficial interest. Mr. Herman Man-Hei Fung, a director of the Company, is also a director of Chinney Investments. The maximum amount due from Hon Kwok Land Investment (Shenzhen) Co., Ltd. during the year was HK$2,541,000.

(iii) Mr. Sek-Kee Yu, a director of the Company, is also a director of Shun Cheong Electrical Engineering Company Limited, which became a subsidiary of the Company on 31 March 2006.

(iv) Tinhawk and Ever Billion are subsidiaries of Shun Cheong. Mr. Sek-Kee Yu is a common director of the Company and Tinhawk and Ever Billion.

The balances with the related companies are unsecured, interest-free and repayable on demand.

The carrying amounts of balances with related companies approximate to their fair values.

26. EQUITY INVESTMENTS AT FAIR VALUE THOUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity investments in Hong Kong, at market value	**12,030**	9,330	**10,455**	9,330

The above equity investments at 31 December 2006 and 2005 were classified as held for trading.

The market value of the above investments of the Group at the date of approval of these financial statements was approximately HK$19,826,000.

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**84,886**	14,268	**906**	654
Time deposits	**120,779**	55,834	**58,322**	6,392
	205,665	70,102	**59,228**	7,046
Less: Pledged time deposits	**(26,800)**	–	**–**	–
Cash and cash equivalents	**178,865**	70,102	**59,228**	7,046

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$751,000 (2005: HK$914,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents and the time deposits approximate to their fair values. Time deposits of HK$26,800,000 were pledged to a bank to secure bank overdraft facilities granted to certain subsidiaries of the Company *(note 30)*.

28. TRADE AND BILLS PAYABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trade payables	**72,722**	45,194
Bills payable	**42,473**	17,574
	115,195	62,768

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 30 days	**62,510**	36,120
31 to 60 days	**5,642**	3,039
61 to 90 days	**861**	1,097
Over 90 days	**3,709**	4,938
	72,722	45,194

The trade payables are non-interest-bearing and are normally settled within terms of 60 to 120 days.

29. TRUST RECEIPT LOANS

At 31 December 2006, the Group's trust receipt loans were secured by corporate guarantees given by the Company and certain subsidiaries. Trust receipt loans are repayable within six months from the date of advance, and bear interest at floating interest rates. Their carrying amounts approximate to their fair values.

30. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current				
Bank overdrafts – unsecured	**28,450**	25,412	**–**	–
Bank overdrafts – secured	**6,758**	–	**–**	–
Current portion of long-term bank loans – secured	**4,000**	3,750	**4,000**	3,750
	39,208	29,162	**4,000**	3,750
Non-current				
Bank loans – secured	**8,000**	–	**8,000**	–
	47,208	29,162	**12,000**	3,750

The maturity of the above bank loans and overdrafts is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Analysed into:				
Bank overdrafts repayable within one year or on demand	**35,208**	25,412	**–**	–
Bank loans repayable:				
Within one year	**4,000**	3,750	**4,000**	3,750
In the second to fifth years	**8,000**	–	**8,000**	–
	12,000	3,750	**12,000**	3,750
	47,208	29,162	**12,000**	3,750

The bank loans and overdrafts of the Group and the Company as set out above bear interest at floating interest rates. All borrowings are denominated in Hong Kong dollars and are secured by the corporate guarantees given by the Company. The secured bank loans are repayable quarterly with last installment due in March 2009, and are secured by certain land and buildings with an aggregate carrying value of HK$23,350,000 (2005: HK$19,300,000) *(note 15)*. The secured bank overdrafts are secured by time deposits of HK$26,800,000 *(note 27)*. The carrying amounts of the bank loans and overdrafts approximate to their fair values.

31. PROVISION

Group

	Long service payment	
	2006	2005
	HK$'000	*HK$'000*
At beginning of year	**1,119**	1,376
Write-back of overprovision	**(127)**	(157)
Provision for the year	**36**	73
Amount utilised during the year	**–**	(173)
At 31 December	**1,028**	1,119
Portion classified as current liabilities	**–**	–
Long-term portion	**1,028**	1,119

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

32. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accruals	**119,655**	28,854	**3,745**	3,488

Other payables and accruals are non-interest-bearing and are payable on demand.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

DEFERRED TAX LIABILITIES

Group

	Fair value adjustments arising from acquisition of a subsidiary		Revaluation of properties		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year	**–**	1,059	**764**	–	**–**	–	**764**	1,059
Deferred tax charged to the income statement during the year *(note 10)*	**–**	–	**1,683**	764	**–**	–	**1,683**	764
Deferred tax charged to asset revaluation reserve	**–**	–	**99**	–	**–**	–	**99**	–
Acquisition of subsidiaries *(note 38)*	**–**	–	**–**	–	**26**	–	**26**	–
Disposal of a subsidiary *(note 37)*	**–**	(1,059)	**–**	–	**–**	–	**–**	(1,059)
Gross deferred tax liabilities at 31 December	**–**	–	**2,546**	764	**26**	–	**2,572**	764

DEFERRED TAX ASSETS

Group

	Depreciation allowance less than related depreciation		Revaluation of properties		Impairment against trade receivables and inventories		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At beginning of year	**723**	779	**86**	–	**–**	625	**809**	1,404
Deferred tax credited/(charged) to the income statement during the year *(note 10)*	**(44)**	(56)	**(86)**	86	**–**	(625)	**(130)**	(595)
Gross deferred tax assets at 31 December	**679**	723	**–**	86	**–**	–	**679**	809
Net deferred tax (liabilities)/assets at 31 December							**(1,893)**	45

33. DEFERRED TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK$263,000,000 (2005: HK$200,000,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. SHARE CAPITAL

SHARES

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
2,500,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.10 (2005: HK$0.25) each	**250,000**	250,000
Issued and fully paid:		
396,599,497 (2005: 158,639,799) ordinary shares of HK$0.10 (2005: HK$0.25) each	**39,660**	39,660

	Number of shares	***HK$'000***
At 1 January 2005	3,965,994,984	39,660
Effect of Share Consolidation arising from Capital Reorganisation *(note (a))*	(3,807,355,185)	–
At 31 December 2005 and 1 January 2006	158,639,799	39,660
Effect of Capital Reduction *(note (b))*	–	(23,795)
New shares issued pursuant to Open Offer *(note (b))*	237,959,698	23,795
At 31 December 2006	**396,599,497**	**39,660**

(a) During the prior year, the Company proposed a capital reorganisation involving the cancellation of the capital reserve and share premium accounts as well as the consolidation of shares into larger denomination (the "Capital Reorganisation"). The Capital Reorganisation was approved by the shareholders of the Company by way of a special resolution and took effect on 6 June 2005 as follows:

(i) the entire amount of HK$236,500,000 standing to the credit of the capital reserve account of the Company as at 31 December 2004 was cancelled and the credit arising therefrom was applied towards the partial elimination of the accumulated losses of the Company as at 31 December 2004 in the amount of HK$708,335,000;

34. SHARE CAPITAL *(continued)*

SHARES *(continued)*

(a) *(continued)*

(ii) the entire amount of HK$568,986,000 standing to the credit of the share premium account of the Company as at 31 December 2004 was cancelled and the credit arising therefrom was applied to eliminate the balance of HK$471,835,000 of the accumulated losses of the Company as at 31 December 2004. The remaining credit of HK$97,151,000 arising therefrom was transferred to the Company's contributed surplus account; and

(iii) every twenty-five issued and unissued shares of nominal value HK$0.01 each in the authorised share capital of the Company were consolidated into one new share of nominal value HK$0.25 each (the "New Share(s) ") (the "Share Consolidation").

As a result of the Capital Reorganisation, the authorised share capital of the Company became HK$250,000,000 divided into 1,000,000,000 New Shares, of which 158,639,799 New Shares were in issue and fully paid. The New Shares rank pari passu in all respects with each other.

(b) During the year, the Company proposed:

(i) a capital reduction involving the reduction of the nominal value of the shares of the Company from HK$0.25 to HK$0.10 per share by the cancellation of HK$0.15 from the paid-up capital in each share (the "Capital Reduction") ; and

(ii) an open offer of new shares on the basis of three offer shares for every two shares held at a subscription price of HK$0.25 per offer share (the "Open Offer").

Details of the Capital Reduction and the Open Offer are set out in the circular to the shareholders of the Company dated 8 September 2006 and in the prospectus for the Open Offer dated 6 October 2006. The Capital Reduction and the Open Offer were approved by the shareholders of the Company on 3 October 2006.

The Capital Reduction became effective on 4 October 2006. As a result, a sum of HK$23,795,969.85 standing to the credit of the share capital account were transferred to the contributed surplus account of the Company and the authorised share capital of the Company of HK$250,000,000 divided into 1,000,000,000 shares of HK$0.25 each was cancelled and restored to HK$250,000,000 divided into 2,500,000,000 shares of HK$0.01 each.

The Open Offer became unconditional on 23 October 2006 and the subscription monies of HK$59.5 million were received by the Company on 25 October 2006. A total of 237,959,698 new shares of HK$0.01 each were issued and alloted on 26 October 2006.

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

On 24 September 1993, an Executive Share Option Scheme (the "Scheme") was approved by the shareholders of the Company (as amended by the shareholders of the Company on 28 June 2001), under which the directors of the Company may, at their discretion, offer any employee (including any director) of the Company or of any of its subsidiaries options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Scheme. The summary terms and particulars of the outstanding options under the Scheme are disclosed below.

SUMMARY OF THE SCHEME

(a) *Purposes of the Scheme*

The purposes of the Scheme are to attract and retain high calibre employees, and to motivate them to a higher level of performance.

(b) *Participants of the Scheme*

The Board may, at its discretion, grant to any employee (including any director) of the Company or of any of its subsidiaries' options to subscribe for the Company's shares.

(c) *Maximum number of shares available for issue under the Scheme*

The maximum number of the shares in respect of which options may be granted under the Scheme is such number of shares, which when aggregated with shares already subject to any other share option schemes of the Company, represents 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares issued pursuant to the Scheme). The Scheme expired on 23 September 2003 and, as a result, there are no further shares available for issue under the Scheme as at the date of this annual report.

(d) *Maximum entitlement to any participant*

Under the Scheme, no options may be granted to any employee which if exercised in full would result in the total number of the Company's shares already issued and issuable to the employee under all the options granted to the employee exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

(e) *Period and payment on acceptance of options*

Under the Scheme, the offer of an option to acquire shares must be accepted in writing in such manner as the Board may prescribe within 14 days from the date of offer and upon payment of a nominal consideration of HK$1 in total by the participant to the Company, whereby such consideration is not refundable.

35. SHARE OPTION SCHEME *(continued)*

SUMMARY OF THE SCHEME *(continued)*

(f) Period within which the shares must be taken up under an option

For those options granted on or before 28 June 2001, the exercise period of the options is 10 years from the date of grant. The number of options that can be exercised is restricted to a maximum of 20% of the shares comprised in the option in the first year from the date of grant and the threshold is increased progressively by 20% each year until it reaches 100% in the fifth year from the date of grant.

For those options granted after 28 June 2001, an option may be exercised in whole or in part at any time during an exercise period ranging from two to five years from the date of grant, as specified by the Board in each grant.

(g) Basis of determining the exercise price

The exercise price of the options is determined by the Board and will not be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of the offer.

(h) Expiration of the Scheme

The Scheme expired on 23 September 2003.

35. SHARE OPTION SCHEME (continued)

PARTICULARS OF THE OUTSTANDING OPTIONS

During the year, options to subscribe for 9,000 (2005: 30,000) shares lapsed in accordance with the terms of the Scheme, upon the expiry of the option period for ten years from the date of grant of those options.

Details of the share options outstanding as at 31 December 2006 which were granted to directors and employees under the Scheme are as follows:

	Number of shares subject to the outstanding share options as at 1 January 2006	Arising from Open Offer during the year*	Number of shares subject to the outstanding share options expired during the year**	Number of shares subject to the outstanding share options as at 31 December 2006	Exercise price per share* HK$	Date of grant	Exercisable from	Exercisable until
Share options to directors								
Sek-Kee Yu	480,000	720,000	–	1,200,000	0.70	16 July 1999	16 July 1999	15 July 2009
Frank Kwok-Kit Chu	320,000	480,000	–	800,000	0.70	13 July 1999	13 July 1999	12 July 2009
Herman Man-Hei Fung	320,000	480,000	–	800,000	0.70	13 July 1999	13 July 1999	12 July 2009
Sub-total	1,120,000	1,680,000	–	2,800,000				
Share options to employees								
In aggregate	9,000	N/A	(9,000)	–	19.50	2 January 1996	2 January 1996	1 January 2006
	160,000	240,000	–	400,000	0.70	16 July 1999	16 July 1999	15 July 2009
	160,000	240,000	–	400,000	0.70	19 July 1999	19 July 1999	18 July 2009
	160,000	240,000	–	400,000	0.70	12 July 1999	12 July 1999	11 July 2009
Sub-total	489,000	720,000	(9,000)	1,200,000				
Total	1,609,000	2,400,000	(9,000)	4,000,000				

* *After completion of the Capital Reduction and the Open Offer, the number of shares subject to the outstanding share options has been adjusted from 1,600,000 shares to 4,000,000 shares, and the relevant exercise price was adjusted from HK$1.75 to HK$0.70 per share.*

** *These options lapsed upon the expiry of the 10-year exercise period.*

At the balance sheet date, the Company had 4,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 4,000,000 additional ordinary shares of the Company and an additional share capital of approximately HK$400,000 and share premium of HK$2,400,000 (before issue expenses).

35. SHARE OPTION SCHEME *(continued)*

PARTICULARS OF THE OUTSTANDING OPTIONS *(continued)*

At the date of approval of these financial statements, the Company had 4,000,000 share options outstanding under the Scheme, which represented approximately 1% of the Company's shares in issue as at that date.

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of these financial statements.

(b) Company

	Share premium account HK$'000	Capital reserve HK$'000	Contributed surplus* HK$'000	Retained profits/ (accumulated losses) HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2005	568,986	236,500	–	(708,335)	–	97,151
Arising from Capital Reorganisation *(note 34)*	(568,986)	(236,500)	97,151	708,335	–	–
Profit for the year	–	–	–	522	–	522
At 31 December 2005 and 1 January 2006	–	–	97,151	522	–	97,673
Arising from Capital Reduction *(note 34)*	–	–	23,795	–	–	23,795
Arising from Open Offer *(note 34)*	35,694	–	–	–	–	35,694
Share issue expenses in relation to Open Offer	(2,689)	–	–	–	–	(2,689)
Profit for the year	–	–	–	8,315	–	8,315
Proposed final dividend *(note 13)*	–	–	–	(3,966)	3,966	–
At 31 December 2006	**33,005**	**–**	**120,946**	**4,871**	**3,966**	**162,788**

* *The Company's contributed surplus arising from the Capital Reorganisation which involved the consolidation of the capital reserve and share premium accounts in the prior year and the Capital Reduction involving cancellation of a portion of paid-up capital during the year.*

There is no specific provision in the Bermuda Companies Act which regulates the use of contributed surplus save that the Company cannot make a distribution out of the contributed surplus to the shareholders if there are reasonable grounds for believing that Company (i) is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

37. DISPOSAL OF SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment *(note 15)*	–	11,705
Retention monies receivable over one year	–	591
Inventories	–	5,175
Construction contracts	–	177
Trade and retention monies receivables	–	6,232
Prepayments, deposits and other receivables	–	630
Cash and cash equivalents	–	3,530
Trade payables	–	(6,583)
Other payables and accruals	–	(4,010)
Tax payable	–	(1,784)
Interest-bearing bank loan	–	(5,000)
Deferred tax liabilities *(note 33)*	–	(1,059)
Minority interests	–	(876)
	–	8,728
Reclassification of the remaining 40% equity interest in a subsidiary to equity investments at fair value through profit or loss	–	(1,168)
Gain on disposal of subsidiaries *(note 5)*	–	1,128
	–	8,688
Satisfied by:		
Cash received	–	8,688

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK$'000	2005 HK$'000
Cash consideration received	–	8,688
Cash and cash equivalents disposed of	–	(3,530)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	5,158

38. BUSINESS COMBINATION

On 31 March 2006, the Group acquired the entire issued share capital of Shun Cheong Investments Limited for a cash consideration of HK$35 million. The purchase consideration for the acquisition was in the form of cash and was fully paid on the date of acquisition.

The fair values of the identifiable assets and liabilities of the SCI Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *HK$'000*	**Carrying amount** *HK$'000*
Net assets acquired:			
Property, plant and equipment	*15*	2,660	2,660
Retention monies receivable over one year		6,390	6,390
Gross amount due from contract customers		42,259	42,259
Trade receivables		62,377	71,449
Retention monies receivable		13,053	13,053
Amounts due from related companies		9,353	9,353
Available-for-sale investments		340	340
Equity investments at fair value through profit or loss		564	564
Prepayments, deposits and other receivables		23,433	23,433
Tax recoverable		2,765	2,765
Pledged time deposits		26,800	26,800
Cash and cash equivalents		7,841	7,841
Gross amount due to contract customers		(43,737)	(43,737)
Trade and bills payables		(40,178)	(40,178)
Trust receipt loans		(3,818)	(3,818)
Amounts due to related companies		(705)	(705)
Retention monies payable		(22,147)	(22,147)
Other payables and accruals		(21,393)	(21,393)
Bank overdrafts		(21,510)	(21,510)
Loan from a minority shareholder of a subsidiary		(6,900)	(6,900)
Deferred tax liabilities	*33*	(26)	(26)
Minority interests		(10,770)	(10,770)
		26,651	35,723
Goodwill on acquisition	*19*	8,922	
		35,573	
Satisfied by:			
Cash consideration			35,000
Relevant costs for the acquisition			573
Cash received			35,573

38. BUSINESS COMBINATION *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2006
	HK$'000
Cash consideration paid	(35,000)
Relevant costs for the acquisition	(573)
Cash and cash equivalents acquired	7,841
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities acquired	26,800
Bank overdrafts acquired	(21,510)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(22,442)

Since its acquisition, the SCI Group contributed HK$565,744,000 to the Group's turnover and accounted for HK$7,826,000 of the consolidated profit for the year ended 31 December 2006.

In the opinion of the directors, disclosures with respect to the revenue and profit or loss of the Group as if the business combinations had been effected at the beginning of the year would be impracticable, because the SCI Group, before acquisition by the Group, had financial year end date on 31 March.

The goodwill of HK$8,922,000 recognised above is mainly attributable to the differences between the carrying amounts and the fair values of the net assets of the cash-generating unit acquired as a whole.

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2006 HK$'000	2005 HK$'000
Management fees to a major shareholder	*(i)*	**2,000**	2,000
Share of rental and office expenses with a related company	*(ii)*	**411**	380
Rental expenses paid to a related company	*(iii)*	**675**	–
Subcontracting fees to related companies	*(iv)*	**63,359**	–
Subcontracting fees to a minority shareholder of a subsidiary	*(v)*	**464**	–
Construction contract income from building maintenance work and building services installation work received from a related company	*(vi)*	**(968)**	–
Sale of goods to an associate	*(vii)*	**–**	(639)
Service income from an associate	*(viii)*	**–**	(5,415)
Rental income from a related company	*(viii)*	**–**	(392)

Notes:

(i) The management fees are charged by Chinney Investments based on the time involvement of the personnel providing services. Dr. James Sai-Wing Wong, a director of the Company, is a director of and has beneficial interests in Chinney Investments. Mr. Herman Man-Hei Fung is a director of the Company and Chinney Investments.

(ii) The rental and office expenses were charged by Hon Kwok, a subsidiary of Chinney Investments, on an actual basis. Dr. James Sai-Wing Wong is a director of and has beneficial interests in Hon Kwok. Mr. Herman Man-Hei Fung is a director of the Company and Hon Kwok.

(iii) A subsidiary of the Company leased certain properties from Jackson Mercantile Trading Company Limited ("Jackson Mercantile"), a subsidiary of Chinney Investments, and paid rent at rates agreed by both parties. Dr. James Sai-Wing Wong, a director of the Company, is a director of and has beneficial interest in Chinney Investments. Mr. Sek-Kee Yu is a director of the Company and Jackson Mercantile.

(iv) The subcontracting charges were paid to Tinhawk and Ever Billion for the completion of work orders of certain building maintenance contracts for the Group. Mr. Sek-Kee Yu is a common director of the Company, Tinhawk and Ever Billion. Both Tinhawk and Ever Billion are subsidiaries of Shun Cheong, a then associate of the Group. Mr. Tian-Quan Mo, who resigned as director of the Company on 4 October 2006, has beneficial interests in Shun Cheong since April 2006, and has been appointed director of Shun Cheong since May 2006. Shun Cheong ceased to be an associate of the Company in April 2006.

(v) The subcontracting charges were paid to a 49.9% minority shareholder of Shun Wing Construction & Engineering Limited, a subsidiary of the Company, for the completion of work orders of a building maintenance contract.

39. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

(vi) The construction contract income represented the value of work certified during the year from Chinney Construction, a subsidiary of Chinney Investments of which Dr. James Sai-Wing Wong, a director of the Company, is a director and has beneficial interest. Mr. Sek-Kee Yu is a director of the Company and Chinney Construction.

As at 31 December 2006, the Group had outstanding trade receivables of HK$27,686,000 due from Chinney Construction *(note 24)*. The maximum amount due from Chinney Construction during the year was HK$30,741,000.

(vii) The sale of goods to and service income from subsidiaries of Shun Cheong, a then associate of the Group, were made according to the published prices and conditions offered to third-party customers. Mr. Sek-Kee Yu was a common director of the Company and Shun Cheong.

(viii) The rental income arose from leasing certain office space to DrilTech Ground Engineering Limited ("DrilTech Ground"), a subsidiary of Chinney Investments, and was charged at rates as agreed by both parties. Dr. James Sai-Wing Wong, a director of the Company, is a director and has beneficial interest in Chinney Investments. Mr. Sek-Kee Yu is a director of the Company and DrilTech Ground.

(b) Other transactions with related parties:

(i) On 26 January 2006, Chinney Alliance Trading (BVI) Limited ("CAT"), a wholly-owned subsidiary of the Company, as purchaser, the Company, as purchaser's guarantor, and Shun Cheong, as vendor, entered into an agreement (the "Agreement") relating to the sale and purchase of the entire issued share capital of Shun Cheong Investments Limited for a cash consideration of HK$35 million *(note 38)*. The subsidiaries of Shun Cheong Investments Limited are engaged in building related contracting services for both public and private sectors. The transaction was approved by the shareholders of the Company at a special general meeting held on 27 March 2006 and was completed on 31 March 2006. The transaction constitutes a major transaction of the Company and relevant details have been set out in the newspaper announcement of the Company dated 2 February 2006 and the circular to the shareholders of the Company dated 10 March 2006.

(ii) On 31 March 2006, upon completion of the acquisition of the SCI Group and pursuant to the terms of the Agreement, the Company executed a deed of indemnity in favour of Shun Cheong to guarantee and indemnify unconditionally and irrevocably all liabilities and all obligations of Shun Cheong under the corporate guarantees provided by Shun Cheong to banks for general banking facilities granted to certain subsidiaries of the SCI Group, as well as the liabilities of CAT for warranties provided by CAT under the Agreement. Up to 30 June 2006, all the corporate guarantees provided by Shun Cheong were released and replaced by corporate guarantees provided by the Company.

39. RELATED PARTY TRANSACTIONS *(continued)*

(b) Other transactions with related parties: *(continued)*

(iii) On 12 April 2006, the Company sold 32,000,000 shares in Shun Cheong, representing approximately a 27.60% interest in the issued share capital of Shun Cheong, to Upsky which is wholly owned by Mr. Tian-Quan Mo, a director of the Company who resigned on 4 October 2006, for an aggregate cash consideration of HK$9.6 million. The consideration was arrived at by the board of directors of the Company after arm's length negotiation with Upsky, after considering the loss-making track record of the business of Shun Cheong and the historical share price performance of Shun Cheong. The transaction constitutes a discloseable and exempt connected transaction of the Company and was subject to the reporting and announcement requirements in accordance with Rule 14A.32 of the Listing Rules. Details of the transaction were set out in the Company's newspaper announcement dated 13 April 2006 and the circular to its shareholders dated 8 May 2006.

(iv) On 18 August 2006, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Enhancement Investments Limited ("EIL") in relation to the proposed issuance of 237,959,698 new shares of the Company at a price of HK$0.25 per share under the Open Offer. Dr. James Sai-Wing Wong, a director of the Company, is the sole beneficial owner of EIL. Pursuant to the terms of the Underwriting Agreement, EIL agreed to underwrite the issuance of 168,722,220 shares (the "Underwritten Shares") at a price of HK$0.25 per share under the Open Offer and the Company agreed to pay EIL an underwriting commission of 2.0% of the total subscription price for the Underwritten Shares. The Open Offer was approved by the independent shareholders of the Company at a special general meeting held on 3 October 2006. Upon the Open Offer become unconditional, the Company paid underwriting commission of approximately HK$844,000 to EIL. Details of the above are set out in a circular to the shareholders of the Company dated 8 September 2006 and in the prospectus for the Open Offer dated 6 October 2006.

(c) Outstanding balances with related parties:

(i) Details of the Group's outstanding balances with related companies as at the balance sheet date are included in note 25 to the financial statements.

(ii) Details of the Group's trade balances with a related company as at the balance sheet date are disclosed in note 24 to the financial statements.

(iii) As disclosed in the consolidated balance sheet, the Group had an outstanding loan due to a minority shareholder of a subsidiary of HK$6,900,000 (2005: Nil) as at the balance sheet date. The balance is unsecured, interest-free and has no fixed terms of repayment.

39. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Short-term employee benefits	**9,930**	11,951
Post-employment benefits	**429**	546
Total compensation paid to key management personnel	**10,359**	12,497

Further details of directors' emoluments are included in note 8 to the financial statements.

40. OPERATING LEASE ARRANGEMENTS

(a) As Lessor

In the prior year, the Group leased certain of its investment properties *(note 16)* under operating lease arrangements, with leases negotiated for terms of three years. The terms of the leases generally also require the tenant to pay security deposits. During the year, the tenant has early terminated the lease arrangement.

	Group	
	2006 HK$'000	2005 HK$'000
Within one year	**–**	634
In the second to fifth years, inclusive	**–**	1,522
	–	2,156

(b) As Lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (2005: one to three years).

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within one year	**3,319**	3,697
In the second to fifth years, inclusive	**260**	2,035
	3,579	5,732

The Company had no operating lease commitments at the balance sheet date (2005: Nil).

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, at 31 December 2005, the Group had commitments under forward foreign exchange contracts amounting to HK$5,379,000.

The Group and the Company had no other significant commitment at 31 December 2006.

42. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(i)

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**624,000**	495,000

As at 31 December 2006, the total facilities utilised by the subsidiaries amounted to HK$375,099,000 (2005: HK$255,593,000).

(ii) The Group provided corporate guarantees and indemnities to certain banks for an aggregate amount of HK$12,408,000 for the issue of performance bonds in its ordinary course of business.

(iii) On 26 October 2005, Best Treasure Limited, as vendor, the Company, as vendor's guarantor, and Chinney Construction (BVI) Limited, a 86.05% owned subsidiary of Chinney Investments, as purchaser, entered into a sale and purchase agreement in relation to the sale and purchase of the entire issued share capital of Jackson Mercantile for a cash consideration of HK$7,800,000. The Company as the vendor's guarantor and Best Treasure Limited as the vendor have undertaken to indemnify Chinney Construction (BVI) Limited up to a maximum amount of HK$7,800,000 until 8 November 2007, being two years after the completion date of the transaction, in case there are valid claims against the Company and/or Best Treasure Limited under the agreement.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and overdrafts, cash and bank balances, and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as gross amounts due from and to contract customers, trade and retention monies receivables, other receivables, and trade and bills payables, which arise directly from the Group's operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors meet periodically to analyse and formulate measures to manage each of these risks and they are summarised below.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

CASH FLOW INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The interest rates and terms of repayment of interest-bearing bank loans and overdrafts are disclosed in note 30 to the financial statements. Other financial assets and liabilities do not have material interest rate risk. Interest-bearing bank loans and overdrafts, cash and bank balances, and short-term deposits are stated at cost and are not revalued on a periodic basis. Floating-rate interest income and expenses are charged to the consolidated income statement as incurred.

The nominal interest rates of the financial instruments approximate to their respective effective interest rates.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group uses forward currency contracts to eliminate the currency exposures on such sale and purchase transactions. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are closely monitored on an ongoing basis to minimise the Group's exposure to bad debts.

With respect to credit risk arising from the other financial assets of the Group, which mainly comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments.

LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and trust receipt loans. The Group's policy is to maintain the Group at net current asset position.

44. COMPARATIVE AMOUNTS

Certain comparative amounts in the consolidated balance sheet, consolidated cash flow statement and notes to financial statements have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.