Build King Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 00240

2007 ANNUAL REPORT

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Financial Highlights

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity* per share**	**12%**
Equity	HK$171 million
Equity per share	HK18 cents
Group revenue and share of revenue of jointly controlled entities	HK$1,286 million
Profit attributable to equity holders of the Company	HK$11 million

* (equity refers to equity attributable to equity holders of the Company)

** (including ordinary shares and convertible preference shares)

FINAL DIVIDEND

The board of directors ("Board") does not recommend the payment of a final dividend for the year ended 31 December 2007.

During 2007, our gain in equity was HK$18 million (comprising of $7 million currency appreciation of our equity investment oversea and $11 million profit from operation) whilst our equity per share increased by 12% to HK18 cents.

Our long term economic goal is to achieve an average rate of increase in equity per share of 15% per annum and to significantly out-perform the average growth of the Hang Seng Index.

This year, our core business of construction posted a loss. But due to the performance of the group's investment in securities, the overall result has remained positive. These have done well out-performing the Hang Seng Index during the year.

In Hong Kong, the results on most of our projects have been satisfactory, the loss being due to a few critical contracts. In the fiercely competitive Hong Kong market, tendering errors have contributed to such loses due to an overly aggressive approach which with hindsight has resulted in under pricing certain risks at tender stage. Due to difficulties in collecting receivables on a few contracts, the poor cash flows have also impacted significantly on the bottom line. During the year, there has also been significant price escalation in materials due to world demand as well as the fall in the US Dollar. Steel in particular has increased over 100%. This has impacted adversely on most contracts but in particular those taken on a fixed price basis.

In China the sewage treatment plant in Wuxi has performed well. Construction was completed in 2006 and the operation commenced early this year. Whilst the volume of effluent flow available for treatment has been below expectations, payment has however been received under the minimum payment guarantee. The flows are increasing and in the long term our expectations are still high for this project. Our investment in China Railway Tenth Group Third Engineering Company Limited ("Third Engineering") has yet to show a return. Two projects have been completed and the third, a highway contract, is in hand.

In Taiwan, we have only one contract for a reclamation project. So far the overall result appears satisfactory but not without difficulties with subcontractors.

In the United Arab Emirates ("UAE") our decision to enter the marine civil engineering market is beginning to show positive results. We have seen success in securing 5 projects of which 3 have already been completed. Although the operation is still very much in a start up mode and contribution in the year under review has been small, there are good positive signs for the future.

BUSINESS ANALYSIS

Construction

As I have said the core business of the Group is construction representing over 99% of our turnover in 2007 of which 81% was in Hong Kong.

The results in Hong Kong have been mixed due to many factors. Whilst most contracts have been satisfactory there have been a few that have performed poorly. There are several reasons.

At the tender stage and with hindsight, there has been under pricing of the cost of some of the work as well as failing to appreciate some of the risks particularly on site logistics. Inadequate allowance for the extent of the escalation in the cost of materials during the year, has also contributed. Such errors regrettably have led to direct operating losses, one third of which can be attributable to material cost escalation. Also in some tenders the risk of adverse cash flow have not been allowed for adequately. Such risks often arise where errors in the tender documents lead to changes in the work being instructed. Whilst such situations may offer the contractor opportunities for additional income, more often than not they result in very significant adverse cash flows and hence additional finance costs. This is particularly the case on public sector projects where it is now usual for agreement on such items, including the time and cost of delay and disruption, to be to a great extent postponed (wrongly) by government until after all physical work is complete. And even then payment is made only after lengthy negotiation or, as is quite usual, after mediation. Such processes may take two or more years to complete. Considering that the terms of typical contracts require the work done to be fairly valued and paid (less retention money) to the contractor each month, what were in the past routine extra payments for extra costs have become a minefield involving the contractor in unplanned very significant adverse cash flow and additional expense as well as staff time in settling final accounts.

Steps have been taken to remedy these errors. A tendering strategy has been adopted to improve the future cash flows by reducing the Group's exposure to government projects and increasing its involvement in the private and quasi private sector. There is also now much more involvement in the tender process by operating staff thereby trying to ensure that the lessons learnt on site are more properly reflected in the pricing. Intermediate reviews are carried out with top management and operating management during the progress of a tender as well as a more rigorous process of finalization, with at least two directors present. Whilst a cash flow has always been prepared for each tender, it is now a Group requirement that this is done in much more detail and that an analysis of the possible effects of the risks discussed above is prepared.

Having said all the above, it should be noted that we have seldom won a contract by a big margin, usually the price gap between us and the next lowest is minimal, indicating the competitive nature of the business in Hong Kong during the past few years.

BUSINESS ANALYSIS – continued

Construction – continued

In execution of the work on site in Hong Kong the majority of projects have progressed well; but lack of cost control, poor planning and poor subcontractor selection and supervision have regrettably been evident on a few sites. In an effort to improve these areas, one change that has been adopted is to ensure that the senior management are fully responsible for not only the quality and progress of work but also the financial planning and result. The manager in charge of each project is now required to present to top management regular detailed in depth reviews of the performance of each project. Such reviews include the current financial position as well as detailed up dated forecasts and cash flow projections. Quarterly meetings are held with the manager responsible to examine and approve the rolling 12 month cash flow forecast for each project with an emphasis on the next three months. There has in the past been a tendency for such financial matters to be left too much in the hands of the project quantity surveyor.

If this year the results in Hong Kong were disappointing, we did not fare much better in China. The construction market is almost as competitive as Hong Kong, and yet we have been trying to compete again on price with the local contractors, ending up with an unsatisfactory result. Our joint venture with Road King Infrastructure Limited ("Road King") has successfully completed Phase 1A of Road King's residential development in Changzhou and whilst its contribution to the Group's bottom line is welcome, its costs are inevitably as degree higher than those of local construction companies. This puts into question whether it is beneficial for Road King to continue to use the joint venture. There may be a future for it, but at the time of writing it is still undecided.

As mentioned above, Third Engineering in which we have a HK$24 million investment, have completed one project successfully, another is substantially finished whilst the third, a highway project in Anhui Province is underway. The first two will make some positive contribution but the highway project has run into engineering problems with the ground conditions and the outcome is uncertain. The success of our investment in this company is yet to be seen but steps have been taken during the later part of the year to strengthen the senior management. W K Aviation Engineering Company Limited has struggled to find any meaningful business in the long span steel structures market – eg the aircraft hangars. As a result, this company which is a joint venture with Malaysian STAMsteel Sdn. Bhd, will be shelved in the coming year. If however suitable opportunities arise in this field in the future, we will still pursue them.

On a more positive note our decision three years ago to enter into UAE marine civil engineering market has shown signs of success. In 2008 we expect that our joint venture with Arabian Construction Company ("ACC") will make a significant contribution to the Group's results. Three projects though small, have been completed successfully and two medium projects are now well underway. A very important factor is that due to pressure particularly for resources, employers are generally willing to advance mobilisation payments for projects. This assists our cash flow and is a great benefit when working so far from our home base.

BUSINESS ANALYSIS – continued

Prospect and Way Forward

In Hong Kong, the Government has announced the go ahead with the construction of a number of important infrastructure projects including several major railway projects. Thus we are confident that the construction industry will be very active for the next few years. We will seek to position ourselves for this long awaited upturn but we expect it will be the second half of 2009 before we see work flow through to contractors. And for genuine results to be reflected in our bottom line, you will have to wait till 2010. Unfortunately, this is the cyclical nature of our business, so be prepared for another two years of tough time. Meanwhile we will continue to tender selectively with an emphasis on private sector work. Due to the expectation that costs will rise significantly over the next two years or so and even at the expense of achieving a lower turnover, we will only tender with meaningful margins.

In the UAE, the construction market is very active and margins are potentially much better than in Hong Kong and China. With oil at such a high price, it is expected that the construction boom in UAE will continue for at least another 10 years. However, whilst there are few local companies, there are a large number of active international groups competing for resources, all of which have to be imported. Contractors are thus at risk on performance. Our performance is well regarded and we are becoming known in the market, enquiries are high and tender invitations more than we can handle. We will increase our senior management and also mobilize more marine plant from Hong Kong shortly. We will seek to expand our current marine civil engineering activity significantly during the next three years whilst keeping a tight control on quality and performance. We also intend to start tendering (together with our partner ACC) for selected general civil engineering projects.

For China, we will focus on foreign investors who wish to have the certainty of completion and quality. Wherever possible our preferred position will be as a Project Management Contractor rather than as a traditional contractor. Discussions will be held with our partner to establish a workable strategy for the way forward for Third Engineering. We will continue to selectively seek infrastructure investment opportunities that have the potential to provide quality returns over the long term.

In addition on a general note, we will encourage more exchange of ideas amongst the managers and demand much better planning at the initial stage of any contract. The aim will be to generate and share good practices as well as innovative ideas. Hopefully by these means all our staff will have a more holistic view on how a project can best be handled.

It must be recognized that construction is a difficult business, the success of which depends on the consistent good overall performance of the entire team, and in addition an operating environment that is not too harsh. We have come a long way, and whilst we have made mistakes, we have also learned from those mistakes and improved our operation. We are optimistic of the long term prospect of the Group although the coming 18 months will still present us with a challenging task here in Hong Kong. I can assure you that we will use our very best effort to achieve success.

BUSINESS ANALYSIS – continued

Prospect and Way Forward – continued

If the above all sounds too pessimistic, this is not my intention. I just like to draw your attention that business we are in is cyclical one. When the market is good we will have a decent profit but when the market is bad, we can only expect to survive without damage.

Investment

This year the market value of our securities portfolio increased by 43% from HK$94 million to HK$134 million (including $45 million cash from disposal of certain securities). This is impressive but not surprising given that the Heng Sang Index also rose during the same period by 39%. During the past two years, share prices have increased much faster than underlying profits. It is therefore inevitable that during other periods, share prices will lag behind the profit increase, as evident in the performance so far in 2008.

Our initial investment starting April 2004 was HK$50 million and by end 2007 the market value has risen to HK$134 million. However, during 2007, in order to meet the needs of our construction activities, we liquidated a certain portion of the portfolio. Though we missed part of the rise during second half of 2007 by a stroke of luck, we also partially 'missed' the fall in price in the first quarter of 2008. However, the best measure is still the growth in profit of the underlying business, as ultimately the profit growth will go in lockstep with the appreciation in share price. In my last report, I predicted the total 'profit' from our investment portfolio will be HK$10.5 million by end 2007, The actual figure of HK$13 million has exceeded my prediction. With a 15% growth per year, we are now targeting HK$14.9 million by end 2008 and, given the understanding we have of the businesses in which we have invested I fully expect to achieve this figure.

Environmental Infrastructure Projects

Our sewage treatment plant in Wuxi, Jiangsu Province in PRC has been in operation for about a year. Last year, I mentioned that the initial inflow of sewage has been disappointingly low and very much below our design capacity of 20,000 ton/day. Over the past 12 months, the flow has gradually increased and at the time of writing, it is 11,000 ton/day. We expect it will increase further and exceed 15,000 ton/day by July 2008 and surpass the 20,000 ton/day mark by early 2009. The increase can be attributed to more connections as a result of the ever increasing emphasis on environmental issues in PRC. Our contract with the Government guarantees a minimum of 10,000 ton/day prior to June 2007, and from July 2007 to June 2008, 15,000 ton/day and thereafter 20,000 ton/day. The Government has honoured their guarantee and with the plant operating costs within budget, the result is close to our original expectation.

BUSINESS ANALYSIS – continued

Environmental Infrastructure Projects – continued

It is important to understand the difference between profit and cash on a project such as Wuxi Plant. This year we achieved a small positive cashflow figure and we expect to achieve a meaningful cashflow figure in 2008. If we are on track, we will probably get our principal investment back in about 8 years' time, thereafter the income (net of operation costs) will be the 'profit'. Yet if we look at how profit is calculated conventionally, a depreciation figure/ year has to be taken out from the cashflow. Since we borrow money from the bank to finance the project, we also need to take out the interest cost from the cashflow figure. After such deductions, it will be lucky that we can register a 'profit' of our Wuxi Plant in 2008. As we gradually pay down the borrowed principle (and hence reduced interest cost) and depreciation over time diminishes, we will be able to see a gradual increase in the profit figure.

The reason for me to explain all these here is that provided the return is attractive and funding is available, we will continue to invest in similar infrastructure projects, You may not observe an immediate impact on the bottom line, for the reason I illustrate above, but in the long term this will bring steady income to the Group to ease the volatility of construction activities.

We believe environment infrastructure projects have a bright future in China and we will continue to seek suitable investment opportunities in this area.

CORPORATE GOVERNANCE

Dividend Policy

Given our thin balance sheet and the working capital requirement of our business, we are not in a position to pay out any dividend. However, I am confident that we will be able to put your money to good use and generate satisfactory returns in the longer term.

Communication with Shareholders

I will be candid with you in my reporting and I will emphasise the pluses as well as minuses that are important in appraising the Group. My guideline is to tell you business facts that I would want to know if our positions were reversed; I owe you nothing less. There may be some queries or issues that you wish to raise with myself or our Vice Chairman, Mr. Yu Sai Yen, in the forthcoming Annual General Meeting ("AGM"). So I would strongly encourage shareholders to attend AGM. This is the occasion where the management and owners of the company can discuss the business face to face.

APPRECIATION

I would like to take this opportunity to express my hearty gratitude to our shareholders, our business partners, directors and our loyal and dedicated staff.

Zen Wei Peu, Derek
Chairman

8 April 2008

BUSINESS REVIEW AND PROSPECT

Operating Results

For 2007, the total group turnover including our share of jointly controlled entities ("Group Turnover") increased by HK$297 million from HK$989 million in 2006 to HK$1,286 million. Both in Hong Kong and overseas we recorded a significant growth in turnover. Hong Kong accounted for an increase of HK$187 million resulting mainly from our effort to expand our private client base. The People's Republic of China ("PRC") sector achieved a 64% increase of turnover.

The Group's net profit was HK$11 million for 2007. Excluding the effect of one-off tax charge of HK$20 million in 2006, the net profit for 2007 was HK$17 million lower than 2006. The after tax contribution from the investment in locally listed securities was maintained at HK$33 million. However the net loss in construction increased from HK$6 million in 2006 to HK$22 million in 2007. The gross margin for construction was still very thin and was affected by a few loss making projects in 2007. The difficult situation of the industry in Hong Kong has yet to improve. Furthermore, the final accounts on several major projects have not yet been resolved. This delayed collection of receivables has resulted in carrying a high level of bank borrowings and the finance costs for the year doubled from HK$6 million in 2006 to HK$12 million in 2007. Overhead costs also increased by HK$8 million in 2007 reflecting management's strategy to maintain a strong management team to cope with a foreseeable upturn in Hong Kong as well as our development in the Middle East market.

During 2007, the Group was awarded 22 new contracts with total value of HK$1,235 million. Subsequent to the year end, 3 contracts of total value of HK$184 million have been secured. As at the date of this report, the Group's order book stood at HK$5,338 million whilst the outstanding value of contracts was approximately HK$1,707 million.

Hong Kong

During 2007, the Group continued to be successful in securing new works in both the public and private sectors. The construction of the veterinary hospital at Ocean Park is progressing well and is expected to be complete in first quarter of 2009. A building project in Tung Chung for a private developer, which commenced in mid 2007, is now at full speed. Two more projects were secured in second half of 2007 from the same developer, with a total value of over HK$100 million. Two new medium sized contracts, one for the former Kowloon-Canton Railway Corporation ("KCRC") at Hung Hom station and the other a pedestrian subway construction project for private developers, are both progressing well. In the public sector, the Group has successfully bided several projects: two school building projects for Architectural Services Department, road and bridge work at Tuen Mun for Civil Engineering and Development Department and a noise barrier project on Tsing Tsuen Bridge for Highways Department.

BUSINESS REVIEW AND PROSPECT – continued

Hong Kong – continued

Of the projects awarded in previous years, Phase 1 development of Ecopark at Tuen Mun was completed satisfactorily and we are now waiting for commencement of Phase 2 in early 2009; Pak Shek Kok civil works was substantially completed and final account is under discussion. Following the successful completion of the aircraft hangar for Hong Kong Aircraft Engineering Company Limited (HAECO) in 2006, we completed our second hangar in 2007 for Hong Kong Business Aviation Centre Ltd. The major refurbishment project at Hung Hom Bay is also approaching completion.

Following the merger of KCRC and MTR Corporation Limited and Chief Executive's announcement in his policy address of the go ahead during the next few years of major new railway projects, we are more optimistic in the long term civil engineering market. Based on our track record and experience in major infrastructure works, we are confident we can benefit from this long awaited wave of major projects. However, it is likely to take another 12 to 18 months for construction work to commence and for us to see any significant change.

Construction cost increases have already been occurring and looking ahead, inflation is the imminent threat to the industry. Competition is however still very keen and the market pricing is still not reflecting these risks. Hopefully, when more the sizeable projects are available in one to two years' time, one can expect more reasonable margins. Therefore we will continue our strategy and are very cautious in tendering for new projects only submitting prices with reasonable margins and positive cashflows.

The PRC

In 2007, the performance of the Group in this market segment was below expectation. Notwithstanding a significantly improved turnover, the margin was not in line with the increase. This was largely due to a reversal of the profit already booked for the Wuxi Pipeline project in 2006.

The three Dayangshan site formation projects were all substantially completed in 2007. However as a result of the new environment laws governing mining, it is anticipated that the expected future similar work on these islands will no longer be possible. The Group is now discussing with the County Government on how to recoup some of our earlier investment in the temporary facilities which we provided on the islands for the expected ongoing works.

BUSINESS REVIEW AND PROSPECT – continued

The PRC – continued

Third Engineering in which we have a 49% stake, secured a new RMB40 million project in Anhui Province for the construction of Services Areas for a new highway (Heliu Highways). Due to exceptionally bad weather in the winter of 2007, the current projects experienced varying degree of delay, Third Engineering is now taking measures to catch up with the delay. The highway project in Shaanxi Province awarded in 2006 was substantially completed at the end of 2007 earlier than the budget.

In the environment sector, after a trial period of operation for a few months, the Group's Wuxi Qianhui Sewage Treatment Plant was formally put into operation at the beginning of 2007; and the plant has performed well and the effluent (treated sewage) has consistently met with the statutory requirements. However the volume of the sewage flowing into the plant during the first half of 2007 was considerably lower than the projected but the situation has improved significantly in the last quarter. Notwithstanding the low volume, there has been no financial impact on the Group due to the guaranteed minimum payments being honoured by the local Government. The new national discharge standards to be implemented in May 2008 will require some modifications to the plant. The Hong Kong Polytechnic University have been engaged to advise on this. The Group expects that it will be able to recoup the additional costs of this upgrading.

On the building operations, the joint venture with Road King, Changzhou Valueahead Construction Limited (alias Li Jun), in which the Group has a 40% share, completed Phase 1A of the residential development in Changzhou and handed it over on time in November 2007. This phase of works has received high commendations from both the Government and users. Li Jun is pressing ahead with completing the remaining works before mid 2008. Based on the experience gained and lessons learnt from this job, the shareholders of Li Jun are currently reviewing Li Jun's future potential in China.

Looking forward, whilst the China market has huge potential, the Group is taking a positive yet cautious step in revisiting our China strategy for the Group. Leveraging on our experience gained in the environment sector first in Hong Kong and now in China, the Group is optimistic it can secure new opportunities in China in 2008. Founded on the solid experience gained in Dayangshan and elsewhere in China, the Group will continue to provide quality services to those clients seeking value-added solutions in both the civil and building sectors.

BUSINESS REVIEW AND PROSPECT – continued

Middle East – UAE

Both our construction and plant chartering activities have been busy during the second half of 2007. The revenue grew to HK$34 million and the operating profit has turned from a loss last year to a small positive in 2007. The order book of our marine related construction joint venture with ACC at the year end was HK$262 million, of which our share is 50%. Most importantly, the enquiry levels are high and there are a number of opportunities in the pipeline.

On the construction projects, the Taweelah Power Plant intake structure was completed during the year. Two new projects were secured, namely a jetty for the Emirates Steel Factory – Steel Integration Project and offshore works at the Fujairah Water and Power Project Phase II. At the year end, the Jetty was 75% complete and was ahead of the first key date. The physical works of the Fujairah offshore works commenced in March 2008. Currently several tenders are outstanding and the Group believes that further successes are imminent.

Opportunities for civil engineering works have yet to be crystallized but this will be an important objective for the Group to achieve in 2008.

On the plant-chartering sector, our application for ship classification status is progressing very well. Our grab dredger GD2 has been classified. The issue of the class certificate for our semi-submersible barge FD100 is imminent, and the classification of other vessels is underway. To further facilitate the renewal of navigation licenses, all vessels will be re-registered under the UAE flags and by the end of December 2007 our two tugboats have been successfully re-registered. During 2007 the utilization of the vessels was ahead of last year. In order to meet the projects requirement, five more vessels will be mobilized from Hong Kong to the UAE soon.

Taiwan

We continued to adopt a cautious approach to the Taiwan market. During 2007, we successfully secured a government project of contract value of HK$110 million involving dredging and a new seawall in Kinmen County. This new project is now 20% completed. We have strengthened the project management team there to ensure its completion on time and within budget.

Employees and Remuneration Policies

As at 31 December 2007, the Group had a total of 1,004 employees and total remuneration for the year ended 31 December 2007 was approximately HK$206 million. Competitive remuneration packages are structured for each employee to commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as that of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2007, the Group had liquid assets of HK$111 million (as at 31 December 2006: HK$153 million) comprising held-for-trading investments of HK$90 million (as at 31 December 2006: HK$94 million) and bank balances and cash of HK$21 million (as at 31 December 2006: HK$59 million).

As at 31 December 2007, the Group had a total of interest bearing borrowings of HK$154 million (as at 31 December 2006: HK$161 million) with the following maturity profile:

	As at 31 December 2007 HK$ million	As at 31 December 2006 HK$ million
Borrowings due within one year	**154**	107
Borrowings due in the second year	**–**	32
Borrowings due in third to fifth year inclusive	**–**	22
Total borrowings	**154**	161

The Group's borrowings, bank balances and cash and held-for-trading investments were principally denominated in Hong Kong dollars. Hence, there is no exposure to foreign exchange rate fluctuations. During the year, the Group had no significant borrowings at fixed interest rate and had no financial instrument for hedging purpose.

Capital Structure and Gearing

During the year, 400,000,000 convertible and non-redeemable preference shares were converted into 40,000,000 ordinary shares. The share capital of the Company was HK$93 million comprising ordinary shares ("Shares") of HK$82 million and convertible and non-redeemable preference shares of HK$11 million which are convertible into 110,000,000 Shares of HK$0.10 each.

As at 31 December 2007, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 86% (as at 31 December 2006: 100%).

FINANCIAL REVIEW – continued

Pledge of Assets

As at 31 December 2007, bank deposits amounting to HK$2 million (as at 31 December 2006: HK$7 million) of the Group were pledged to banks for the purpose of meeting the terms and conditions of certain construction contracts entered into by the Group.

Certain equity securities with market value of HK$41 million (as at 31 December 2006: HK$42 million) were pledged to bank to secure general banking facilities granted to the Group.

The Group has pledged certain motor vehicles with carrying value of HK$626,000 (as at 31 December, 2006: Nil) to secure new bank loans granted to the Group.

Commitment

As at 31 December 2007, the Group had no significant capital commitment (as at 31 December 2006: HK$12 million).

Contingent Liabilities

	As at 31 December 2007 HK$ million	As at 31 December 2006 HK$ million
Outstanding tender/performance/retention bonds in respect of construction contracts	**110**	55

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, aged 55, has been the Chairman of the Company since 23 April 2004 and has been appointed as a member of the Remuneration Committee of the Company since 1 April 2005. He is also the Vice Chairman of Wai Kee Holdings Limited ("Wai Kee") and an Executive Director of Road King, the shares of which are listed on Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). He is also the Chairman of Chai-Na-Ta Corp. He holds a Bachelor of Science Degree in Engineering from The University of Hong Kong and a Master Degree in Business Administration from The Chinese University of Hong Kong. He is a member of both the Institution of Civil Engineers and The Hong Kong Institution of Engineers and a fellow member of the Institution of Quarrying, the United Kingdom ("UK"). He is also the Honorary Treasurer of Hong Kong Construction Association in 2007 to 2009. He has over 30 years of experience in civil engineering.

YU Sai Yen, aged 53, has been the Vice Chairman of the Company since 23 April 2004. He is also the Managing Director of Leader Construction Company Limited ("Leader Construction") which is a member of the Group. He holds a Bachelor of Science Honours Degree in Civil Engineering from the University of Dundee, UK. He is a Chartered Engineer and a fellow of both The Hong Kong Institution of Engineers and the Institution of Civil Engineers, UK. He is the council member and past Chairman of Civil Division of The Hong Kong Institution of Engineers. He has over 26 years of experience in project management and contract administration of large-scale civil engineering projects in site formation, reclamation, highway and railway works. He was an Executive Director of Wai Kee between 22 September 2000 and 11 September 2001.

NON-EXECUTIVE DIRECTORS

David Howard GEM, aged 67, has been appointed as Non-executive Director of the Company since 9 August 2004 and a member of the Audit Committee since 29 July 2005. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 40 years of experience with contractors in the management, design and construction of a wide variety of civil engineering and building projects in the UK, Asia and Hong Kong. He is a past Vice President of The Hong Kong Construction Association and Chairman of The Civil Engineering Committee. He is also a past Chairman of the Civil Engineering Division of The Hong Kong Institution of Engineers and a past member of the Construction Advisory Board to the Hong Kong Government.

NON-EXECUTIVE DIRECTORS – continued

CHENG Chi Pang, Leslie, aged 50, has been appointed as a Non-executive Director of the Company since 9 August 2004 and has also been appointed as a Non-executive Director of Wai Kee since September 2000. Dr. Cheng holds a Bachelor Degree in Business, a Master Degree in Business Administration and a Doctorate Degree of Philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has over 25 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was Group Financial Controller and Chief Executive of NWS Holdings Limited. He is now the Chairman of the Supervisory Board of The Macao Water Supply Company Limited, the Senior Partner of Leslie Cheng & Co., the Chief Executive Officer of L & E Consultants Limited and an Independent Non-executive Director and Chairman of Audit Committee of China Ting Group Holdings Limited, Fortune Sun (China) Holdings Limited, Nine Dragons Paper (Holdings) Limited and Tianjin Port Development Holdings Limited, the shares of these four companies are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of an international accounting firm.

LAM Wai Hon, Patrick, aged 45, has been appointed as a Non-executive Director of the Company since 11 May 2006 and has also been appointed as a Non-executive Director of Wai Kee in September 2000. Mr. Lam is a Chartered Accountant by training and holds a Master of Business Administration Degree from The University of Edinburgh and a Bachelor Degree from the University of Essex, UK. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Lam is presently Assistant General Manager of New World Development Company Limited, an Executive Director of NWS Holdings Limited and a Non-executive Director of Taifook Securities Group Limited, the shares of these three companies are listed on the Main Board of the Stock Exchange. Mr. Lam is also an Executive Director of Hong Kong Convention and Exhibition Centre (Management) Limited. Prior to joining the New World Group, Mr. Lam worked for an international accounting firm.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOW Ming Kuen, Joseph, OBE, JP, aged 66, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company, both since 23 April 2004. He has also been appointed as the Chairman of the Remuneration Committee of the Company since 16 February 2005. He is a professional civil and structural engineer. He is also a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is the Chairman of Joseph Chow and Partners Limited, a professional consulting engineers firm. Dr. Chow is the Chairman of the Construction Workers Registration Authority and served as President of The Hong Kong Institution of Engineers from 2001 to 2002 and Chairman of the Hong Kong Engineers' Registration Board from 1996 to 1998. Dr. Chow is a Hon Senior Superintendent of the Auxiliary Police Force. He served in many public services including Chairman of the Hong Kong Examinations Authority, Deputy Council Chairman of Hong Kong Polytechnic University, member of Hospital Authority, Hong Kong Housing Authority and Hong Kong University Court. He is also the Independent Non-executive Chairman of PYI Corporation Limited, an Independent Non-executive Director of Chevalier International Holdings Limited and a Non-executive Director of Wheelock Properties Limited, the shares of these three companies are listed on the Main Board of the Stock Exchange.

NG Chi Ming, James, aged 64, has been appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company, both since 23 April 2004. He has also been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. He is a Director and the Chief Executive Officer of ENM Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He is a Director of Chinachem Group companies and the Chairman of the Employers' Federation of Hong Kong. He has over 30 years of experience in the banking industry in Hong Kong and the United States. He was the Chief Executive Officer of First Pacific Bank in Hong Kong and the Chief Executive Officer of United Savings Bank in California.

HO Tai Wai, David, aged 59, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company, both since 8 September 2004. He has also been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. Mr. Ho has over 39 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of the UK, the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Ho holds a Master of Business Administration Degree from The Chinese University of Hong Kong.

SENIOR MANAGEMENT

Alan CLARKE, aged 59, is a Director and the General Manager of Kaden Construction Limited. He holds a Bachelor Degree in Building and is a member of the Institution of Civil Engineers and the Chartered Institute of Building. He has over 35 years of experience in civil engineering including estimating and project management. He also represents Kaden Construction Limited to serve on Hong Kong Construction Association's Council.

CHEUNG Siu Lun, aged 57, is a Director of Kaden Construction Limited. He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong. He is a member of the Institution of Civil Engineers and a fellow of The Hong Kong Institution of Engineers. He is also a Chartered Engineer of the UK. He has over 30 years of experience in both civil engineering and building construction. He is currently a member of the Registered Contractors' Disciplinary Board Panel of the Buildings Department, Hong Kong Special Administrative Region ("HKSAR") and the Chengdu People's Political Consultative Committee.

LUI Yau Chun, Paul, aged 47, is a Director and the General Manager (Marine) of Wai Kee (Zens) Construction & Transportation Company Limited ("WKC&T"), a Director and the General Manager of Leader Marine Contractors Limited ("Leader Marine"), and the General Manager of Leader Marine L.L.C. and Leader Marine Cont. L.L.C., both companies registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers. He has over 20 years of experience in civil and marine engineering. He is responsible for managing the marine operations of WKC&T, the operations of Leader Marine, Leader Marine L.L.C. and Leader Marine Cont. L.L.C. He is a member of the Contractors Registration Committee Panel and the Contractors Registration Committee (General Building Contractors and Specialist Contractors) of the Buildings Department, HKSAR.

KO Kin Wah, Max, aged 53, is a Director of Leader Civil Engineering Corporation Limited ("LCECL"). He is a registered professional engineer (P. Eng.) in Canada. He is also a member of The Hong Kong Institution of Engineers. He has over 25 years of experience in civil engineering and project management. He represents LCECL to serve on the Hong Kong Construction Association's Council.

CHANG Kam Chuen, Desmond, aged 42, has been appointed as the Company Secretary of the Company since 31 May 2005, is the Qualified Accountant of the Company and the Financial Controller of the Group. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of Institute of Chartered Management Accountant, UK. He has over 15 years of experience in accounting profession and financial management. Mr. Chang is responsible for the financial and secretarial departments of the Group.

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 44 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers of the Group together accounted for approximately 80% of the Group's turnover, with the largest customer accounted for 53%, and the five largest suppliers of the Group together represented less than 12% by value of the Group's total purchases.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 45.

The board of directors of the Company ("Board") does not recommend the payment of dividend for the year ended 31 December 2007 (31 December 2006: nil).

SEGMENT INFORMATION

Details of the segment information are set out in note 6 to the consolidated financial statements.

RESERVES

Details of movement in the reserves of the Group for the year is set out in the consolidated statement of changes in equity on page 48.

DISTRIBUTABLE RESERVES

There were no distributable reserves available for distribution to the Shareholders as at 31 December, 2006 and 2007.

FINANCIAL SUMMARY

A summary of the results and of assets and liabilities of the Group for the past five financial years is set out on page 107.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2007 are set out in note 29 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in notes 30 and 31 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

Details of the Company's pension scheme are set out in note 41 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Zen Wei Peu, Derek *(Chairman)*
Yu Sai Yen *(Vice Chairman)*

Non-executive Directors

David Howard Gem
Cheng Chi Pang, Leslie
Lam Wai Hon, Patrick

Independent Non-executive Directors

Chow Ming Kuen, Joseph
Ng Chi Ming, James
Ho Tai Wai, David

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

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Zen Wei Peu, Derek, Dr. Chow Ming Kuen, Joseph and Mr. Ho Tai Wai, David shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS – continued

Each of Messrs. Zen Wei Peu, Derek and Yu Sai Yen has entered into a service contract with the Company for a term of three years commencing on 1 May 2007.

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

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

The Company has received from each Independent Non-executive Director an annual confirmation of his independence during the year ended 31 December 2007 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. The Company considers all the Independent Non-executive Directors to be independent.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in note 11 to the consolidated financial statements.

DIRECTORS' INTERESTS

As at 31 December 2007, the interests (including short positions) of the Directors and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers in the Listing Rules, were as follows:

DIRECTORS' INTERESTS – continued

(I) The Company

Interests in shares

Name of Director	Capacity/ Nature of interest	Number of Shares held Long position	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Personal	107,581,421 *(Note)*	–	13.10 *(Note)*
Cheng Chi Pang, Leslie	Personal	1,170,000 *(Note)*	–	0.14 *(Note)*
Lam Wai Hon, Patrick	Personal	140,000 *(Note)*	–	0.02 *(Note)*

Note: Long position in the Shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).

As at 31 December 2007, the number of the issued shares of the Company was 821,408,494. Accordingly, the percentage has been adjusted.

(II) Associated corporations

Interests in shares

Name of Director	Name of company	Capacity/ Nature of interest	Number of shares held Long position	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Wai Kee	Personal	185,057,078 *(Note 1)*	–	23.33 *(Note 3)*
		Personal	770,000 *(Note 2)*	–	0.10 *(Note 3)*
	WKC&T	Personal	2,000,000 *(Note 1)*	–	10.00
	Wai Luen Stone Products Limited	Personal	30,000 *(Note 1)*	–	37.50

DIRECTORS' INTERESTS – continued

(II) Associated corporations – continued

Interests in shares – continued

Name of Director	Name of company	Capacity/ Nature of interest	Number of shares held Long position	Short position	Percentage of shareholding (%)
David Howard Gem	Wai Kee	Personal	500,000 *(Note 1)*	–	0.06 *(Note 3)*
Cheng Chi Pang, Leslie	Wai Kee	Personal	500,000 *(Note 1)*	–	0.06 *(Note 3)*
		Personal	330,000 *(Note 2)*	–	0.04 *(Note 3)*
Lam Wai Hon, Patrick	Wai Kee	Personal	300,000 *(Note 1)*	–	0.04 *(Note 3)*
		Personal	330,000 *(Note 2)*	–	0.04 *(Note 3)*

Notes:

1. Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).

2. Long position in the underlying shares of Wai Kee pursuant to unlisted equity derivatives (including physically settled, cash settled and other equity derivatives). Share options granted to Directors are included in this category, the particulars of which are set out under the heading "SHARE OPTIONS" below.

3. As at 31 December 2007, the number of the issued shares of Wai Kee was 793,124,034. Accordingly, the percentage has been adjusted.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

Associated Corporation

The share option scheme was adopted by Wai Kee at the annual general meeting held on 18 September 2002 ("Wai Kee Share Option Scheme") to comply with Chapter 17 of the Listing Rules. As at 31 December 2007, Wai Kee granted 1,430,000 share options under the Wai Kee Share Option Scheme to three Directors of the Company, no share options of which were exercised.

Details of the share options granted under the Wai Kee Share Option Scheme to the following Directors of the Company and a summary of the movements during the year were as follows:

				Number of share options				
Name	Date of grant	Exercisable period	Exercise price (HK$)	Balance at 1.1.2007	Granted during the year*	Exercised during the year	Cancelled/ Lapsed during the year	Balance at 31.12.2007
Zen Wei Peu, Derek	9 July 2007	9 July 2008 to 8 July 2011	3.39	–	770,000	–	–	770,000
Cheng Chi Pang, Leslie	9 July 2007	9 July 2008 to 8 July 2011	3.39	–	330,000	–	–	330,000
Lam Wai Hon, Patrick	9 July 2007	9 July 2008 to 8 July 2011	3.39	–	330,000	–	–	330,000
Total				–	1,430,000	–	–	1,430,000

* The closing price of the shares of Wai Kee immediately before the date of grant was HK$3.32.

Save as disclosed above, none of the Directors nor any of their associates had any interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Save as disclosed above, none of the Directors nor their spouse or children under 18 years of age were granted or had exercised any rights to subscribe for any securities of the Company or any of its associated corporations.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Wai Kee Share Option Scheme as mentioned earlier, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or of any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTEREST

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Number of Shares held and percentage of shareholding			
		Long position		Short position	
Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares	%	Number of Shares	%
Top Horizon Holdings Limited ("Top Horizon") *(Note 1(a))*	Personal/ Beneficiary	566,561,270 *(Notes 1 and 2)*	68.97	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") *(Note 1(b))*	Personal/ Beneficiary	5	0.00	–	–
	Corporate	566,561,270 *(Notes 1 and 3)*	68.97	–	–
Wai Kee *(Note 1(c))*	Corporate	566,561,275 *(Notes 1 and 3)*	68.97	–	–
Vast Earn Group Limited *(Note 1(d))*	Personal/ Beneficiary	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
NWS Service Management Limited (incorporated in the British Virgin Islands) *(Note 1(e))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
NWS Service Management Limited (incorporated in the Cayman Islands) *(Note 1(f))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–

SUBSTANTIAL SHAREHOLDERS – continued

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held and percentage of shareholding: Long position: Number of Shares	%	Short position: Number of Shares	%
NWS Holdings Limited *(Note 1(g))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
New World Development Company Limited *(Note 1(h))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
Chow Tai Fook Enterprises Limited *(Note 1(i))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
Centennial Success Limited *(Note 1(j))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–
Cheng Yu Tung Family (Holdings) Limited *(Note 1(k))*	Corporate	59,883,040 *(Note 1)*	7.29 *(Note 4)*	–	–

Notes:

1. Long position in the Shares

   (a) Top Horizon was a direct wholly owned subsidiary of Wai Kee (Zens).

   (b) Wai Kee (Zens) was deemed to be interested in the Shares through its interests in Top Horizon.

   (c) Wai Kee (Zens) was a direct wholly owned subsidiary of Wai Kee. Accordingly, Wai Kee was deemed to be interested in the Shares through its interests in its wholly owned subsidiaries, namely Wai Kee (Zens) and Top Horizon.

   (d) Vast Earn Group Limited was a wholly owned subsidiary of NWS Service Management Limited (incorporated in the British Virgin Islands).

   (e) NWS Service Management Limited (incorporated in the British Virgin Islands) was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely Vast Earn Group Limited.

SUBSTANTIAL SHAREHOLDERS – continued

(f) NWS Service Management Limited (incorporated in the Cayman Islands) was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the British Virgin Islands).

(g) NWS Holdings Limited was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the Cayman Islands).

(h) New World Development Company Limited was deemed to be interested in the Shares through its interests in its subsidiary, namely NWS Holdings Limited.

(i) Chow Tai Fook Enterprises Limited was deemed to be interested in the Shares through its interests in more than one-third of the issued share capital of New World Development Company Limited.

(j) Centennial Success Limited was deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely Chow Tai Fook Enterprises Limited.

(k) Cheng Yu Tung Family (Holdings) Limited was deemed to be interested in the Shares through its interests in its subsidiary, namely Centennial Success Limited.

2. The number of Shares taken to be interested or to have a long position by Top Horizon included (i) 456,561,270 Shares; and (ii) derivative of 1,100,000,000 convertible and non-redeemable preference shares in the capital of the Company, which could be convertible into 110,000,000 Shares pursuant to the terms of issue of convertible and non-redeemable preference shares.

3. The number of Shares taken to be interested or to have a long position by Wai Kee (Zens) and Wai Kee included (i) 456,561,275 Shares; and (ii) derivative of 1,100,000,000 convertible and non-redeemable preference shares in the capital of the Company, which could be convertible into 110,000,000 Shares pursuant to the terms of issue of convertible and non-redeemable preference shares.

4. As at 31 December 2007, the issued capital of the Company was 821,408,494 Shares. Accordingly, the percentage has been adjusted.

Save as disclosed above, as at 31 December 2007, no other person (other than Directors or chief executives of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTION

Consultancy Agreement with Gateway Business Services Limited ("Gateway")

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

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2007.

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

Loan facility of HK$40,000,000.00

The Company was granted a term loan facility of HK$40,000,000.00 (the "Facility") pursuant to a facility letter from an independent bank dated 22 July 2004 (renewed on 13 November 2007). The full sum of the Facility shall be repaid by six half-yearly instalments commencing eighteen months after the date of drawdown of the Facility.

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

Loan Facility of Euro5,000,000.00

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

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

Save as disclosed above, as at 31 December 2007, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$14,400.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the per cent of its public float exceeds 25% for the year ended 31 December 2007 and up to 8 April 2008, the latest practicable date to ascertain such information prior to the issue of this annual report.

SUBSEQUENT EVENT

As announced on 2 January 2008, the Company, through its subsidiary, during the period from 7 November 2007 to 21 December 2007 (both days inclusive) disposed of an aggregate of 2,284,000 shares of Chaoda Modern Agriculture (Holdings) Limited on market for a total consideration of approximately HK$16.20 million.

As the revenue ratio for the above disposal exceeded 5% but less than 25% of the Group's total revenue, the disposal constituted a discloseable transaction under the Listing Rules. Details of the transaction were disclosed in the circular dated 23 January 2008.

AUDITOR

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

On behalf of the Board

Zen Wei Peu, Derek
Chairman

8 April 2008

CORPORATE GOVERNANCE PRACTICES

The Company is committed to attaining good standard of corporate governance practices with an emphasis on a quality board, better transparency and effective accountability system in order to enhance the Shareholders' value.

The Company has adopted the code provisions of the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules as its own code and has complied with the Code throughout the year ended 31 December 2007 except for the deviation from code provision A.4.1 of the Code in respect of the service term of the Directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board formulates overall strategies of the Group, monitors management's performance and maintains effective oversight of execution of business strategies. The Board members are fully committed to their roles and have acted in good faith to maximise the Shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board is made up of eight Directors, including two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The Non-executive Directors and Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of construction, management, financial and accounting. All the Board members have extensive experience and knowledge in corporate management making significant contributions to the Company's strategic decision. The diverse background of the Board members ensures that they fully represent the interests of all the Shareholders. Biography and responsibility of the Directors are set out under the heading "Directors and Senior Management" of this Annual Report. The Board has delegated certain authorities to the Audit Committee and Remuneration Committee.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and between the Chairman and the Vice Chairman.

BOARD OF DIRECTORS – continued

During the year, five full board meetings were held and the attendance of each Director is set out as follows:

Directors	Attendance/ Number of meetings
Executive Directors :	
Zen Wei Peu, Derek *(Chairman)*	5/5
Yu Sai Yen *(Vice Chairman)*	5/5
Non-executive Directors :	
David Howard Gem	3/5
Cheng Chi Pang, Leslie	5/5
Lam Wai Hon, Patrick	5/5
Independent Non-executive Directors :	
Chow Ming Kuen, Joseph	4/5
Ng Chi Ming, James	4/5
Ho Tai Wai, David	5/5

The Board is provided with information by the senior management for the operational and financial reports before the regular board meetings. At least 14 days' notice is given to all Directors and the relevant information despatched to them at least 3 days before the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present and to take any questions or address queries that the Board members may have. All Board members have unrestricted access to information and may seek independent professional advice where appropriate. Minutes of every board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following board meeting.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities.

CHAIRMAN AND VICE CHAIRMAN

The Chairman of the Board is Mr. Zen Wei Peu, Derek and the Vice Chairman is Mr. Yu Sai Yen. The Company does not at present have any officer with the title "Chief Executive Officer" (CEO). However, Mr. Yu Sai Yen, having been appointed as the Vice Chairman, carries out the duties of a CEO of the Company upon the completion of the restructuring in April 2004. The Company does not currently intend to re-designate the Vice Chairman as CEO of the Company. Though he is not formally designated as CEO of the Company, his duties and responsibilities are segregated from those of the Chairman's.

The segregation of duties and responsibilities between the Chairman and the Vice Chairman have been clearly established and set out in writing. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Vice Chairman is responsible for managing the Group's business and overall operations. The day-to-day running of the Company is delegated to the management with divisional heads responsible for different aspects of the business.

NON-EXECUTIVE DIRECTORS

None of the existing Non-executive Directors (including Independent Non-executive Directors) is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all the Directors are subject to the retirement provisions under Bye-law 111 of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established in February 2005 with specific written terms of reference which delineates its authority and duties. The Chairman of the Remuneration Committee is Dr. Chow Ming Kuen, Joseph, an Independent Non-executive Director, and other members include Mr. Ng Chi Ming, James, Mr. Ho Tai Wai, David and Mr. Zen Wei Peu, Derek, the majority being Independent Non-executive Directors.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. The Remuneration Committee shall consult with the Chairman and Vice Chairman on its proposals and recommendations. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions and prevailing marketing conditions.

REMUNERATION OF DIRECTORS – continued

During the year, two meetings of the Remuneration Committee were held. Details of the attendance of the Remuneration Committee meetings are as follows:

Remuneration Committee Members	Attendance/ Number of meetings
Chow Ming Kuen, Joseph	2/2
Ng Chi Ming, James	2/2
Ho Tai Wai, David	2/2
Zen Wei Peu, Derek	2/2

During the year, the Remuneration Committee reviewed and approved the remuneration packages of the Executive Directors and senior management (as defined in the Annual Report). No member can determine his own remuneration. The terms of reference of the Remuneration Committee is published on the Company's website.

NOMINATION OF DIRECTORS

The appointment and removal of Directors is considered and determined by the Board of Directors. The Board shall consider every proposed director's knowledge, experience and his/her possible contribution to the Company before his/her appointment as the Company's Director. The Directors shall retire from office in general meeting in accordance with the Bye-laws but shall be eligible for re-election at the general meeting.

According to Bye-law 111 of the Bye-laws of the Company then in effect before 12 May 2005, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board, the Managing Director or joint Managing Director of the Company shall not be subject to retirement by rotation. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election, or those who have been longest in office since their last re-election or appointment or those who were appointed by the Board to fill casual vacancy. However, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. As the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company, this constitutes a deviation from the code provision A.4.2 of the Code. Nevertheless, any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and shall be eligible for re-election.

To comply with the code provision A.4.2 of the Code, the relevant amendment to Bye-law 111 of the Bye-laws of the Company was proposed and approved by the Shareholders at the annual general meeting of Company held on 12 May 2005.

AUDIT COMMITTEE

The Audit Committee was re-established upon the completion of the restructuring in April 2004. The Chairman of the Audit Committee is Mr. Ng Chi Ming, James, an Independent Non-executive Director, and other members include Dr. Chow Ming Kuen, Joseph, Mr. Ho Tai Wai, David and Mr. David Howard Gem, the majority being Independent Non-executive Directors.

The main roles and functions of the Audit Committee are as follows:

1. to consider the appointment of external auditors, the audit fees and any questions of resignation or dismissal of the external auditors;

2. to discuss with the external auditors the nature and scope of the audit;

3. to review the annual and interim financial statements before submission to the Board of Directors;

4. to discuss problems arising from the interim review and final audit;

5. to review the external auditor's management letters and management's response;

6. to review internal control systems;

7. to review the internal audit program, ensure co-ordination between the internal and external auditors; and

8. to consider the major findings of internal investigations and management's response.

The terms of reference of the Audit Committee is published on the Company's website.

AUDIT COMMITTEE – continued

During the year, three meetings of the Audit Committee were held. Details of the attendance of the Audit Committee meetings are as follows:

Audit Committee Members	Attendance/ Number of meetings
Ng Chi Ming, James	3/3
Chow Ming Kuen, Joseph	2/3
Ho Tai Wai, David	3/3
David Howard Gem	1/3

During the year, the Audit Committee considered the external auditors' proposed audit fees, discussed with the external auditors the nature and scope of the audit, reviewed the major findings and recommendations of the Internal Audit Team on the operations and performance of the Group, reviewed the effectiveness of internal control system, interim and annual financial statements, and reviewed the external auditors' management letter and management's responses.

AUDITOR'S REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$
Audit services	2,013,000
Non-audit services (including tax advice and reporting accountant)	349,000
	2,362,000

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements of the Group.

The statement of the external auditor of the Company, Messrs. Deloitte Touche Tohamstu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on page 43.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INTERNAL CONTROL

The Board recognises its responsibility for maintaining an adequate system of internal control. To guarantee an ongoing assurance process, the Board established an internal audit team in January 2006. During the year, the Board has conducted a review of the effectiveness of the Group's internal control system. The internal audit team provides independent and objective assurance to the Chairman and Audit Committee on:

1. Integrity of financial and operational information;

2. Effectiveness and efficiency of operations;

3. Safeguarding of assets;

4. Quality of information flow; and

5. Compliance with laws, regulations, and contracts.

INTERNAL CONTROL – continued

The internal audit team carried out its mission by:

1. identifying and prioritising potential business risks;

2. performing risk-based audits;

3. evaluating effectiveness and compliance with internal policies and procedures;

4. analysing causes for errors and irregularities found;

5. recommending good internal controls to prevent unintentional mistakes, discourage fraudulent acts, and promote operational efficiency and ethical standards;

6. performing follow up procedures on corrective actions;

7. appraising the soundness and adequacy of various departments' ongoing maintenance of internal controls;

8. providing consulting and advisory services on control and related matters;

9. conducting independent investigation of situations raised by whistleblowers, if any; and

10. maintaining open communication with the chairman, audit committee, and audit management.

The system of internal control is designed to provide reasonable, but not absolute, assurance against human errors, material misstatements, losses, damages, or frauds, and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives. During the year under review, no irregularity or material weakness was noted within any function or process. The Audit Committee and the external auditors were satisfied that the internal control system has functioned effectively as intended.

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

The Group is dedicated to excellence in Quality, Safety and Environmental Protection. Since the Year 2004, it has adopted an Integrated Management System, which is a total management and systematic approach comprising a consistent set of standards and processes, that are applied uniformly across the whole entity. This is a living system and is being constantly reviewed and amended to suit changing circumstances and new legislation. Continual monitoring and reporting at all levels is carried out together with internal and external audits to ensure full compliance. As a testament of this commitment, the Group continues to be accredited under the relevant international standards; namely: ISO9001: 2000, OHSAS18001: 1999 and ISO14001: 2004.

The persistent drive for excellence in quality, safety and the environment have resulted in the operating companies of the Group between them winning of the following awards during the year under review:

- 3 no. HKCA Safety Merit Awards presented by the Hong Kong Construction Association;
- Gold Award of the Green Innovative Practice Award presented by Environmental Protection Department (Environmental Campaign Committee), Hong Kong SAR Government;
- Grand Award of the HKCA Innovation Environmental Award presented by the Hong Kong Construction Association;
- Considerate Contractor Site Awards (Silver) presented by the Works Branch of Development Bureau, Hong Kong SAR Government;
- 2 no. Considerate Contractor Site Awards (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government;
- 2 no. Outstanding Environmental Management & Performance Grand Awards (Bronze) presented by the Works Branch of Development Bureau, Hong Kong SAR Government;
- Outstanding Environmental Management & Performance Grand Award (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government;
- Hong Kong Award for Industries – Certificate of Merit in Environmental Performance presented by the Business Environment Council and Trade and Industry Department, Hong Kong SAR Government;
- Construction Sites Housekeeping Award (Meritorious) presented by the Drainage Services Department, Hong Kong SAR Government;

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT – continued

- 4 no. HKCA Environmental Merit Awards presented by the Hong Kong Construction Association; and

- 3 no. Gold "Wastewi$e Logos" presented by the Environmental Protection Department, Hong Kong SAR Government.

During the year, imbued with strong management commitment and professional expertise, the Group has fulfilled its duties as a responsible corporation. In the years ahead it will continue to take the lead in motivating all employees and subcontractors to make unremitting efforts to further improve the Group's performance in Quality Assurance, Safety & Health and Environmental Protection.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all Shareholders. The Company communicates with its Shareholders through the publication of annual and interim reports in accordance to the Listing Rules. Detailed analysis of the development status of each business are set out in the Business Review and Prospects of the Interim and Annual Reports so as to enable the Shareholders to have a thorough understanding of the Company's businesses.

The Company's financial statements and each of the required disclosure of information are despatched within the prescribed period imposed by law and regulations and are all posted on the Company's website at www.buildking.hk for the public to download.

The Company welcomes the Shareholders to attend the general meetings and express their views. The Chairman of the Board as well as other Board members together with the external auditor is available to answer Shareholders' questions.

COMPLIANCE

The Company realises the importance of the corporate governance. The Board shall ensure from time to time to comply with the Code to increase their accountability and to achieve a high standard of corporate governance.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

TO THE MEMBERS OF BUILD KING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Build King Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 106, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Group revenue	5	**799,886**	605,927
Cost of sales		**(780,648)**	(586,160)
Gross profit		**19,238**	19,767
Other income	7	**8,907**	13,610
Investment income	8	**39,586**	38,600
Administrative expenses		**(67,042)**	(58,992)
Finance costs	9	**(12,214)**	(6,746)
Share of results of jointly controlled entities		**29,045**	26,860
Share of results of associates		**134**	(15)
Profit before tax	10	**17,654**	33,084
Income tax expense	13	**(6,781)**	(25,691)
Profit for the year		**10,873**	7,393
Attributable to:			
Equity holders of the Company		**10,612**	7,366
Minority interests		**261**	27
		10,873	7,393
Dividends:			
To the holders of 2% convertible preference shares		**249**	300
		HK cents	HK cents
Earnings per share	14		
– Basic		**1.3**	0.9
– Diluted		**1.1**	0.8

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**50,976**	51,307
Intangible assets	16	**32,858**	32,858
Goodwill	17	**30,554**	30,554
Interests in jointly controlled entities	19	**84,756**	62,676
Available-for-sale investments	20	**–**	3,127
		199,144	180,522
Current assets			
Amounts due from customers for contract work	21	**80,322**	57,695
Finance lease receivables	22	**271**	660
Debtors, deposits and prepayments	23	**270,339**	223,908
Amounts due from associates	24	**105**	1,699
Amounts due from jointly controlled entities	24	**10,492**	14,129
Held-for-trading investments	25	**89,763**	94,247
Tax recoverable		**2,673**	15,700
Pledged bank deposits	26	**2,058**	6,692
Bank balances and cash	26	**21,191**	59,365
		477,214	474,095
Current liabilities			
Amounts due to customers for contract work	21	**19,889**	1,094
Creditors and accrued charges	27	**223,170**	209,651
Amount due to an intermediate holding company	28	**5,536**	3,644
Amounts due to fellow subsidiaries	28	**1,116**	1,763
Amount due to an associate	34	**7,682**	7,908
Amounts due to jointly controlled entities	28	**3,974**	29,350
Amounts due to minority shareholders	28	**3,094**	2,794
Tax liabilities		**12,450**	8,636
Ordinary share dividend payable to an intermediate holding company		**22,000**	22,000
Preference share dividend payable to immediate holding company		**1,049**	800
Bank loans – due within one year	29	**151,608**	106,602
Bank overdraft, secured	26	**2,110**	–
		453,678	394,242
Net current assets		**23,536**	79,853
Total assets less current liabilities		**222,680**	260,375

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Ordinary share capital	30	**82,141**	78,141
Convertible preference share capital	31	**11,000**	15,000
Reserves		**77,423**	59,725
Equity attributable to equity holders of the Company		**170,564**	152,866
Minority interests		**9,227**	9,291
Total equity		**179,791**	162,157
Non-current liabilities			
Deferred tax liabilities	32	**5,750**	5,750
Obligations in excess of interests in associates	33	**21,910**	22,044
Amount due to an associate	34	**10,687**	11,689
Amount due to a jointly controlled entity	35	**4,067**	4,067
Bank loans – due after one year	29	**475**	54,668
		42,889	98,218
		222,680	260,375

The consolidated financial statements on pages 45 to 106 were approved and authorised for issue by the Board of Directors on 8 April 2008 and are signed on its behalf by:

Zen Wei Peu, Derek	**Yu Sai Yen**
Chairman	*Vice Chairman*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company								
	Ordinary share capital	**Convertible preference share capital**	**Translation reserve**	**Special reserve**	**Asset revaluation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000 *(Note)*	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	78,141	15,000	(1,813)	(63,141)	4,290	112,446	144,923	9,332	154,255
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	877	–	–	–	877	(68)	809
Profit for the year	–	–	–	–	–	7,366	7,366	27	7,393
Total recognised income and expenses for the year	–	–	877	–	–	7,366	8,243	(41)	8,202
Dividends	–	–	–	–	–	(300)	(300)	–	(300)
At 31 December 2006	78,141	15,000	(936)	(63,141)	4,290	119,512	152,866	9,291	162,157
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	7,335	–	–	–	7,335	338	7,673
Profit for the year	–	–	–	–	–	10,612	10,612	261	10,873
Total recognised income and expenses for the year	–	–	7,335	–	–	10,612	17,947	599	18,546
Conversion of non-redeemable preference shares	4,000	(4,000)	–	–	–	–	–	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(663)	(663)
Dividends	–	–	–	–	–	(249)	(249)	–	(249)
At 31 December 2007	82,141	11,000	6,399	(63,141)	4,290	129,875	170,564	9,227	179,791

Note: The special reserve represents adjustment in share capital on the reverse acquisition of the Company in 2004.

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Operating activities		
Profit before tax	**17,654**	33,084
Adjustments for:		
Finance costs	**12,214**	6,746
Depreciation	**9,272**	9,752
Bad debts written off	**1,500**	–
Gain on disposal of property, plant and equipment	**(192)**	(9,291)
Dividends from held-for-trading investments	**(2,909)**	(2,953)
Increase in fair value of held-for-trading investments	**(36,677)**	(35,647)
Share of results of jointly controlled entities	**(29,045)**	(26,860)
Share of results of associates	**(134)**	15
Interest on bank deposits	**(493)**	(300)
Interest on other receivables	**(1,367)**	–
Interest on finance lease receivables	**(28)**	(120)
Operating cash flows before movements in working capital	**(30,205)**	(25,574)
Increase in amounts due from customers for contract work	**(22,602)**	(17,898)
Increase in debtors, deposits and prepayments	**(47,931)**	(76,929)
Decrease (increase) in held-for-trading investments	**41,161**	(2,404)
Increase (decrease) in amounts due to customers for contract work	**18,795**	(15,067)
Increase in creditors and accrued charges	**13,519**	46,333
Cash used in operations	**(27,263)**	(91,539)
Interest on bank deposits received	**493**	300
Interest on other receivables received	**1,367**	–
Income taxes refunded	**10,060**	13
Net cash used in operating activities	**(15,343)**	(91,226)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Investing activities		
Dividends from held-for-trading investments	**2,909**	2,953
Distribution of profits from jointly controlled entities	**22,981**	17,761
Decrease (increase) in pledged bank deposits	**4,634**	(5)
(Advances to) repayment from jointly controlled entities	**(21,739)**	13,756
Proceeds from disposal of available-for-sale investments	**3,127**	–
Repayment from (advances to) associates	**197**	(498)
Repayment of finance lease receivables	**389**	714
Proceeds from disposal of property, plant and equipment	**260**	9,934
Interest on finance lease receivables received	**28**	120
Capital contribution to jointly controlled entities	**(12,197)**	–
Purchases of property, plant and equipment	**(6,218)**	(583)
Acquisition of additional interest in a subsidiary	**(663)**	–
Expenditure on property and plant under construction	**–**	(31,854)
Net cash (used in) from investing activities	**(6,292)**	12,298
Financing activities		
Repayment of bank loans	**(37,293)**	(22,198)
Interest paid	**(12,045)**	(7,992)
(Repayment to) advances from fellow subsidiaries	**(647)**	1,246
New bank loans raised	**28,106**	92,468
Advances from an intermediate holding company	**1,892**	4,737
Advances from minority shareholders	**300**	3,500
Net cash (used in) from financing activities	**(19,687)**	71,761
Net decrease in cash and cash equivalents	**(41,322)**	(7,167)
Cash and cash equivalents at the beginning of the year	**59,365**	66,287
Effect of foreign exchange rate changes, net	**1,038**	245
Cash and cash equivalents at the end of the year, represented by	**19,081**	59,365
Bank balances and cash	**21,191**	59,365
Bank overdraft	**(2,110)**	–
	19,081	59,365

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its significant subsidiaries, associates and jointly controlled entities are set out in notes 44, 33 and 19 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS – continued

The Group has not early applied the following new and revised and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arranagements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

HK(IFRIC) – INT 12 sets out general principles on recognising and measuring the obligations and related rights under service concession arrangements. The Group will apply this interpretation from 1 January 2008. The directors of the Company has commenced considering the potential impact of this new interpretation but is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position. The directors of the Company anticipate that the application of the remaining standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

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

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

3. **SIGNIFICANT ACCOUNTING POLICIES – continued**

Goodwill – continued

Goodwill arising on acquisitions on or after 1 January 2005 – continued

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

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Jointly controlled entities

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

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

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

Construction contract

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Others

Service income is recognised when services are provided.

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

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

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Property and plant under construction includes property, plant and equipment in the course of construction for production or for its own use purposes. Property and plant under construction is carried at cost less any recognised impairment loss. Property and plant under construction is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Construction contracts

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

Leasing

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

The Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

The Group as lessee

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Financial instruments

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

Financial assets

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

– *Financial assets at fair value through profit or loss*

  The Group's financial assets at fair value through profit or loss are the financial assets held for trading.

  A financial asset is classified as held for trading if:

  - it has been acquired principally for the purpose of selling in the near future; or
  - it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
  - it is a derivative that is not designated and effective as a hedging instrument.

  At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

3. **SIGNIFICANT ACCOUNTING POLICIES – continued**

Financial instruments – continued

Financial assets – continued

– *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including finance lease receivables, debtors, amounts due from associates and jointly controlled entities, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

– *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Impairment of financial assets – continued

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as debtors and amounts due from associates and jointly controlled entities, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

– *Financial liabilities*

Financial liabilities including creditors, amounts due to an intermediate holding company, fellow subsidiaries, an associate and jointly controlled entities, amounts due to minority shareholders, dividend payables to intermediate and immediate holding companies and bank loans are subsequently measured at amortised cost, using the effective interest method.

– *Equity instruments*

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES – continued**

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

4. **KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Recoverability of intangible assets arising from acquisition of a subsidiary

During the year, management considered the recoverability of the intangible assets (i.e. construction licenses with indefinite useful lives) arising from the acquisition of a subsidiary, which is included in the consolidated balance sheet at 31 December 2007 at HK$32,858,000. The construction projects continue to progress in a satisfactory manner, and the recent new projects successfully secured by the Group have reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licenses. However, increased market competition has caused management to reconsider its assumptions regarding future market share and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate is applied in order to calculate the present value. As at 31 December 2007, the carrying amount of goodwill is HK$30,554,000. Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 December 2007, no deferred tax asset has been recognised in the Group's consolidated balance sheet in relation to unused tax losses of HK$264,629,000 due to unpredictability of future profit streams. The realisability of the unrecognised deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are greater than expected, a material deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such future profits are recorded.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Construction contracts

The Group recognised profits and losses from construction contracts, which were derived from the latest available budgets of the construction contracts based on the overall performance of each construction contract and management's best estimates and judgements. Estimated construction income is determined in accordance with the terms set out in the relevant contracts. Estimated construction costs which mainly comprise sub-contracting charges and costs of materials are proposed by the management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and the experience of the management. Because of the nature of the construction industry, management regularly reviews the progress of the contracts and the estimated construction income and costs.

The Group's estimated profits from construction contracts of its jointly controlled entities were principally derived from the construction contracts carried out by the jointly controlled entities. These figures were derived from the latest available budgets of the construction contracts which were prepared by the management of the respective jointly controlled entity and the Group and were based on the overall performance of each construction contract.

5. REVENUE

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

	2007 **HK$'000**	2006 HK$'000
Group revenue	**799,886**	605,927
Share of revenue of jointly controlled entities		
Hong Kong	**307,811**	368,033
Middle East	**15,752**	–
Taiwan	**–**	1,745
The PRC	**162,889**	13,747
	1,286,338	989,452

6. SEGMENTAL INFORMATION

(a) Business segments

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

(b) Geographical segments

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

Year ended 31 December 2007

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results					
Segment group revenue	**737,904**	**24,150**	**19,794**	**18,038**	**799,886**
Segment results	**(29,884)**	**(913)**	**(3,991)**	**(344)**	**(35,132)**
Unallocated net corporate expenses					**(3,765)**
Investment income					**39,586**
Share of results of jointly controlled entities	**29,097**	**–**	**(1,629)**	**1,577**	**29,045**
Share of results of associates	**134**	**–**	**–**	**–**	**134**
Finance costs					**(12,214)**
Profit before tax					**17,654**
Income tax expense					**(6,781)**
Profit for the year					**10,873**

6. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

Year ended 31 December 2006

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

6. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

At 31 December 2007

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	285,409	7,298	126,789	25,696	445,192
Interests in jointly controlled entities	26,679	1,047	55,453	1,577	84,756
Unallocated corporate assets					146,410
Total consolidated assets					676,358
Liabilities					
Segment liabilities	203,910	5,849	63,061	2,302	275,122
Obligations in excess of interests in associates	21,910	–	–	–	21,910
Unallocated corporate liabilities					199,535
Total consolidated liabilities					496,567

For the year ended 31 December 2007

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Additions to property, plant and equipment	1,309	139	258	4,512	6,218
Depreciation of property, plant and equipment	1,113	11	4,053	4,095	9,272
Gain on disposal of property, plant and equipment	192	–	–	–	192
Write back of allowance for bad and doubtful debt	133	–	–	–	133
Bad debts written off	–	1,500	–	–	1,500

6. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

At 31 December 2006

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	237,280	129	132,454	15,400	385,263
Interests in jointly controlled entities	20,512	1,097	41,067	–	62,676
Unallocated corporate assets					206,678
Total consolidated assets					654,617
Liabilities					
Segment liabilities	178,549	1,781	83,323	4,652	268,305
Obligations in excess of interests in associates	22,044	–	–	–	22,044
Unallocated corporate liabilities					202,111
Total consolidated liabilities					492,460

For the year ended 31 December 2006

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

For the year ended 31 December 2007

7. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Other income includes:		
Gain on disposal of property, plant and equipment, net	192	9,291
Interest on bank deposits	493	300
Interest on finance lease receivables	28	120
Interest on other receivables	1,367	–
Service income from associates for secretarial and management services rendered	1,800	850
Technical consultancy income	4,484	–
Write back of allowance for bad and doubtful debts	133	1,787

8. INVESTMENT INCOME

	2007 HK$'000	2006 HK$'000
Dividends from held-for-trading investments	2,909	2,953
Increase in fair value of held-for-trading investments	36,677	35,647
	39,586	38,600

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	11,904	7,834
Interest bearing amount due to an associate	141	158
Imputed interest expense on non-current interest free amount due to an associate	169	176
	12,214	8,168
Less: amount capitalised in property and plant under construction	–	(1,422)
	12,214	6,746

10. PROFIT BEFORE TAX

	2007	2006
	HK$'000	HK$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	**1,432**	1,461
Underprovision in prior years	**376**	152
	1,808	1,613
Bad debts written off	**1,500**	–
Depreciation	**9,297**	9,769
Less: Amount attributable to construction contracts	**(25)**	(17)
	9,272	9,752
Hire charges for plant and machinery	**29,341**	40,717
Less: Amount attributable to construction contracts	**(29,341)**	(40,717)
	–	–
Net foreign exchange losses	**156**	194
Operating lease rentals in respect of land and buildings	**4,166**	3,463
Less: Amount attributable to construction contracts	**(450)**	(68)
	3,716	3,395
Share of income tax (credit) charge of jointly controlled entities (included in share of results of jointly controlled entities)	**(3,297)**	1,790

10. PROFIT BEFORE TAX – continued

	2007 HK$'000	2006 HK$'000
Staff costs:		
Directors' remuneration *(note 11)*	**5,458**	5,519
Other staff costs	**190,625**	147,198
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$394,000 (2006: HK$353,000)	**10,054**	7,881
	206,137	160,598
Less: Amount attributable to construction contracts	**(156,507)**	(117,350)
	49,630	43,248

11. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the eight (2006: eight) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2007				
Zen Wei Peu, Derek	–	2,088	12	2,100
Yu Sai Yen	–	2,268	220	2,488
David Howard Gem	145	–	–	145
Cheng Chi Pang, Leslie	145	–	–	145
Lam Wai Hon, Patrick	145	–	–	145
Chow Ming Kuen, Joseph	145	–	–	145
Ng Chi Ming, James	145	–	–	145
Ho Tai Wai, David	145	–	–	145
	870	4,356	232	5,458

11. DIRECTORS' REMUNERATION – continued

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2006				
Zen Wei Peu, Derek	–	2,488	12	2,500
Yu Sai Yen	–	2,111	183	2,294
David Howard Gem	145	–	–	145
Cheng Chi Pang, Leslie	145	–	–	145
Lam Wai Hon, Patrick	–	–	–	–
Chow Ming Kuen, Joseph	145	–	–	145
Ng Chi Ming, James	145	–	–	145
Ho Tai Wai, David	145	–	–	145
	725	4,599	195	5,519

No director waived any emoluments for both years ended 31 December 2007 and 2006.

12. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two (2006: two) directors, details of whose emoluments are set out in note 11 above. The emoluments of the remaining three (2006: three) highest paid individuals were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**4,976**	4,198
Retirement benefits scheme contributions	**297**	267
	5,273	4,465

12. EMPLOYEES' EMOLUMENTS – continued

Their emoluments were within the following bands:

	Number of employees	
	2007	2006
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**1**	–

13. INCOME TAX EXPENSE

	2007	2006
	HK$'000	HK$'000
Current tax:		
Hong Kong	**6,781**	5,157
Underprovision in prior years:		
Hong Kong	**–**	20,472
Other jurisdictions	**–**	62
	6,781	25,691

Details of deferred tax are set out on note 32.

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

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

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

13. INCOME TAX EXPENSE – continued

During the year ended 31 December 2006, the Inland Revenue Department ("IRD") of the Hong Kong Special Administrative Region (the "HKSAR") informed the Company that regardless of the commercial substance of the Agreement and the accounting treatment of the transactions as if it was an outright sale and transfer of interests in joint ventures by ZPCCL to LCECL, the IRD was of the view that ZPCCL as the legal partner of these joint ventures and therefore LCECL was not entitled to offset the profits derived from these joint ventures against its tax losses.

Having consulted with the Company's legal and tax advisers, the management accepted the IRD's view and the consolidated financial statements for the year ended 31 December 2006 were therefore prepared on the basis that ZPCCL remained the legal partner of these joint ventures from an income tax point of view. The resulting impact on the financial results and position of the Group was an underprovision of prior years' income taxes of approximately HK$20 million, which was charged to the income tax expense for the year ended 31 December 2006.

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

	2007	2006
	HK$'000	HK$'000
Profit before tax	**17,654**	33,084
Taxation at the applicable rate of 17.5%	**3,089**	5,790
Tax effect of share of results of associates	**(23)**	3
Tax effect of share of results of jointly controlled entities	**(5,083)**	(4,701)
Tax effect of expenses that are not deductible in determining taxable profit	**1,223**	1,374
Tax effect of unrecognised tax losses	**11,489**	5,580
Tax effect of income that is not taxable in determining taxable profit	**(438)**	(2,972)
Underprovision in prior years	**–**	20,534
Utilisation of tax losses previously not recognised	**(3,047)**	(4,073)
Tax effect of different tax rates for companies operating in other jurisdictions	**–**	3,165
Others	**(429)**	991
Income tax expense for the year	**6,781**	25,691

14. EARNINGS PER SHARE

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

	2007 HK$'000	2006 HK$'000
Profit for the year attributable to equity holders of the Company	**10,612**	7,366
Dividends on convertible preference share capital	**(249)**	(300)
Earnings for the purposes of basic earnings per share	**10,363**	7,066
Effect of dilutive potential ordinary shares:		
Dividends on convertible preference share capital	**249**	300
Earnings for the purposes of diluted earnings per share	**10,612**	7,366

	Number of shares '000	 '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**806,833**	781,408
Effect of dilutive potential ordinary shares:		
Convertible preference share capital	**124,575**	150,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**931,408**	931,408

15. PROPERTY, PLANT AND EQUIPMENT

	Building HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Property and plant under construction HK$'000 *(Note)*	Total HK$'000
COST								
At 1 January 2006	–	7,677	14,431	20,620	5,151	88,984	7,525	144,388
Exchange realignment	–	–	26	122	23	–	278	449
Additions	–	–	–	348	235	–	33,276	33,859
Disposals	–	–	–	–	(188)	(15,932)	–	(16,120)
At 31 December 2006	–	7,677	14,457	21,090	5,221	73,052	41,079	162,576
Exchange realignment	–	–	13	49	42	–	2,768	2,872
Transfer	33,007	–	6,740	3,874	226	–	(43,847)	–
Additions	45	–	309	891	774	4,199	–	6,218
Disposals	–	–	–	–	–	(300)	–	(300)
At 31 December 2007	33,052	7,677	21,519	25,904	6,263	76,951	–	171,366
DEPRECIATION AND IMPAIRMENT								
At 1 January 2006	–	7,671	14,212	19,683	4,722	70,624	–	116,912
Exchange realignment	–	–	26	31	8	–	–	65
Provided for the year	–	4	117	507	152	8,989	–	9,769
Eliminated on disposals	–	–	–	–	(188)	(15,289)	–	(15,477)
At 31 December 2006	–	7,675	14,355	20,221	4,694	64,324	–	111,269
Exchange realignment	–	–	13	27	16	–	–	56
Provided for the year	2,363	2	767	1,333	323	4,509	–	9,297
Eliminated on disposals	–	–	–	–	–	(232)	–	(232)
At 31 December 2007	2,363	7,677	15,135	21,581	5,033	68,601	–	120,390
CARRYING VALUES								
At 31 December 2007	30,689	–	6,384	4,323	1,230	8,350	–	50,976
At 31 December 2006	–	2	102	869	527	8,728	41,079	51,307

Note: Pursuant to the Build – Operate – Transfer Agreement ("BOT Agreement") entered into in April 2005 between Wuxi Qianhui Sewage Treatment Co., Ltd. ("Wuxi Qianhui"), a non-wholly owned subsidiary of the Group and the People's Government of Qian Qiao Zhen, Hui Shan District, Wu Xi City, Wuxi Qianhui was granted the right to construct and operate a sewage treatment plant for a term of 30 years. By the end of the 30th year, the sewage treatment plant will then be transferred to the People's Government of Qian Qiao Zhen at zero consideration. The sewage treatment plant is completely constructed and commenced its operations in the first quarter of 2007 and accordingly, the property and plant under construction is classified to appropriate category of property, plant and equipment. At the balance sheet date, the carrying value of the sewage treatment plant is HK$40,245,000.

15. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Building	Over the shorter of the term of lease, or 30 years
Leasehold improvements	$33^{1}/_{3}$% or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

The Group's leasehold land and building and property and plant under construction are located in the PRC and held under medium term leases.

The Group has pledged certain motor vehicles with carrying value of HK$626,000 (2006: Nil) to secure new bank loans granted during the year.

16. INTANGIBLE ASSETS

The amount represents the fair value of the construction licenses (with indefinite useful lives) held by a subsidiary, Kaden Construction Limited, acquired by the Group in 2005 (the "acquired subsidiary").

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

Various studies including sensitivity analysis and market trends have been carried out by the management of the Group, which supports that the construction licenses have no foreseeable limit to the period over which the construction licenses are expected to generate net cash inflow for the Group. As a result, the construction licenses are considered by the management of the Group as having an indefinite useful life because it is expected to contribute net cash inflow indefinitely. The construction licenses will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding the impairment testing on intangible assets are disclosed in note 18.

17. GOODWILL

The amount represents goodwill arising on the reverse acquisition of the Company in 2004. Particulars regarding impairment testing on goodwill are disclosed in note 18.

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

For the purpose of impairment testing, goodwill has been allocated to the underlying cash generating units ("CGU"), which represents the Company and its subsidiaries in existence at the time of reverse acquisition of the Company in 2004.

For the purpose of impairment testing, intangible asset with indefinite useful lives set out in note 16 have been allocated to the CGU of the subsidiary acquired in 2005, which holds the construction licences granted by the Works Branch of Development Bureau, Hong Kong SAR Government and through which it is eligible to undertake government construction contracts for all five categories of public works with no limitation in contract sum.

During the year ended 31 December 2007, the management of the Group determined that there are no impairments of any of its CGUs containing goodwill and intangible assets.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Group's management covering a period of 5 years, and a discount rate of 10% (2006: 10%). Goodwill and intangible assets are expected to generated cash flows for an indefinite period of time. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 HK$'000	2006 HK$'000
Cost of investment in unlisted jointly controlled entities	**53,484**	41,287
Share of post-acquisition profits, net of dividends received	**31,272**	21,389
	84,756	62,676

At 31 December 2007, the Group had interests in the following principal jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
ACC-Leader Joint Venture	Unincorporated	Middle East	50	Civil engineering
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated *(note 1)*	PRC	49	Civil engineering
Dragages (HK) Joint Venture	Unincorporated	Hong Kong	14 *(note 2)*	Civil engineering
Hip Hing – Leader JV Limited	Incorporated	Hong Kong	$33^1/_3$	Civil engineering
Kaden-ATAL Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Kaden-STAMsteel Joint Venture (HKBAC)	Unincorporated	Hong Kong	72 *(note 2)*	Civil engineering
Kaden-STAMsteel Joint Venture (HAECO)	Unincorporated	Hong Kong	50	Civil engineering

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated *(note 1)*	PRC	51 *(note 2)*	Road construction
常州利駿建築工程有限公司	Incorporated *(note 3)*	PRC	40	Property construction

Notes:

1. The company is a equity joint venture registered in the PRC.

2. The Group holds either less than 20% or greater than 50% interests in these entities. However, under the joint venture agreements, the entities are jointly controlled by the Group and the other significant joint venture partners. Therefore, these entities are classified as jointly controlled entities.

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

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

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

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

Share of results attributable to the Group

	2007	2006
	HK$'000	HK$'000
Revenue	**486,452**	383,525
Other income	**4,657**	2,435
Total revenue	**491,109**	385,960
Total expenses	**(465,361)**	(357,310)
Profit before tax	**25,748**	28,650
Income tax credit (expense)	**3,297**	(1,790)
Profit for the year	**29,045**	26,860

Share of assets and liabilities attributable to the Group

	2007	2006
	HK$'000	HK$'000
Non-current assets	**25,319**	18,157
Current assets	**317,871**	242,515
Current liabilities	**(253,816)**	(197,584)
Non-current liabilities	**(4,618)**	(412)
Net assets	**84,756**	62,676

20. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Unlisted equity securities, at cost	800	3,927
Less: Impairment loss recognised	(800)	(800)
	–	3,127

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

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

	2007 HK$'000	2006 HK$'000
Contracts in progress at balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	4,607,649	3,746,987
Less: Progress billings	(4,547,216)	(3,690,386)
	60,433	56,601
Represented by:		
Due from customers included in current assets	80,322	57,695
Due to customers included in current liabilities	(19,889)	(1,094)
	60,433	56,601

22. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finance lease receivables comprise:				
Within one year	**278**	695	**271**	660
Less: Unearned finance income	**(7)**	(35)	**–**	–
Present value of minimum lease payments receivables	**271**	660	**271**	660

The Group has leased out certain of its plant and machinery under finance leases. The average lease term is 3 years. All leases are on a fixed repayment basis.

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

Finance lease receivables are secured over the plant and machinery leased. The Group is not permitted to sell or repledged the collateral in the absence of default by the lessee.

The directors consider the carrying amount of finance lease receivables approximate its fair value.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

	2007	2006
	HK$'000	HK$'000
Trade debtors aged within 60 days	**183,815**	179,018
Retention receivables	**32,608**	13,434
Other debtors, deposits and prepayments	**53,916**	31,456
	270,339	223,908
Retention receivables		
Due within one year	**19,658**	10,621
Due more than one year	**12,950**	2,813
	32,608	13,434

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

Included in the Group's trade debtors balance, there is no balance which is past due at the balance sheet date for which the Group has not provided. During the year, the Group has written off bad debts of HK$1,500,000 (2006: nil) which in severe financial difficulties. The Group does not hold any collateral over trade debtors.

Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically.

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the major customer of the Group is Hong Kong SAR Government. Accordingly, the directors believe that no provision is required.

24. AMOUNTS DUE FROM ASSOCIATES/JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and recoverable on demand except for an advance to a jointly controlled entity of HK$3,650,000 (2006: Nil) carries interest at 1.75% plus one month Hong Kong Interbank offered Rate ("HIBOR").

25. HELD-FOR-TRADING INVESTMENTS

	2007	2006
	HK$'000	HK$'000
Held-for-trading investments stated at fair value:		
– Equity securities listed in Hong Kong	**89,722**	94,139
– Equity securities listed in the United States of America	**41**	108
	89,763	94,247

At 31 December 2007, certain equity securities with market value of HK$41,400,000 (2006: HK$41,596,000) were pledged to a bank to secure general banking facilities granted to the Group.

In relation to the pledge of equity securities, the bank requires certain subsidiaries of the Company that are entitled to the bank facilities, to provide cross guarantee to the bank. Therefore, although certain equity securities were pledged to the bank, the Group is allowed to trade the pledged securities at the Group's discretion. Accordingly, investments in these equity securities are classified as held-for-trading investments in the consolidated balance sheet.

26. PLEDGED BANK DEPOSITS AND BANK BALANCES AND BANK OVERDRAFT

Bank deposits of the Group amounting to HK$2,058,000 (2006: HK$6,692,000) were pledged to banks for the purpose of satisfying the terms and conditions of certain construction contracts entered into by the Group and securing the banking facilities granted to the Group. The pledged bank deposits carry fixed interest ranging from 1.35% to 2.26% (2006: 2.16% to 2.23%) per annum.

Bank balances carry average market interest rate ranging from 1.35% to 2.26% (2006: 2.27% to 2.63%) per annum.

Bank overdraft carries interest at market rates which range from 8.25% to 9.25% (2006: Nil).

27. CREDITORS AND ACCRUED CHARGES

	2007 HK$'000	2006 HK$'000
Trade creditors analysed by age:		
0 to 60 days	**53,899**	24,748
61 to 90 days	**4,364**	11,260
Over 90 days	**7,812**	11,985
	66,075	47,993
Retention payables	**32,852**	22,878
Accrued project costs	**100,043**	112,038
Other creditors and accrued charges	**24,200**	26,742
	223,170	209,651
Retention payables		
Due within one year	**19,723**	14,537
Due more than one year	**13,129**	8,341
	32,852	22,878

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

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

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

29. BANK LOANS

	2007 HK$'000	2006 HK$'000
The maturity of bank loans is as follows:		
Within one year	**151,608**	106,602
In the second year	**185**	32,294
In the third to fifth year inclusive	**290**	22,374
	152,083	161,270
Less: Amount due within one year shown under current liabilities	**(151,608)**	(106,602)
Amount due after one year	**475**	54,668
Secured	**97,348**	65,000
Unsecured	**54,735**	96,270
	152,083	161,270

At the balance sheet date, bank loans include HK$644,000 (2006: Nil) fixed rate borrowings which carry interest ranging from 8.52% to 9.39% per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 4.85% to 7.90% (2006: 5% to 10%) per annum. Total of HK$54,735,000 bank loans (2006: HK$72,868,000) carry an interest which is repriced every six months. Remaining bank loans carry interest which is repriced every month.

During the year, in respect of bank loans with carrying amounts of HK$54,735,000 as at 31 December 2007, the Group breached certain of the terms of the bank loans, which are primarily related to the debt-equity ratio of the Group. According to HKAS 1 "Presentation of financial statements", since the banks have not agreed to waive their right to demand immediate payment as at the balance sheet date, the non-current portion of the bank loans amounting to HK$32,428,000 have been classified as current liabilities in the consolidated balance sheet as at 31 December 2007. The Group has subsequently obtained written consent from the banks to waive their rights to demand immediate repayment.

As at the balance sheet date, the Group has undrawn borrowing facilities of HK$56,549,000 (2006: HK$59,407,000).

30. ORDINARY SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares		
At 1 January 2006, 31 December 2006 and 2007 of HK$0.1 each	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares		
At 1 January 2006 and 31 December 2006 of HK$0.1 each	781,408,494	78,141
Conversion of non-redeemable preference shares	40,000,000	4,000
At 31 December 2007	821,408,494	82,141

31. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2006, 31 December 2006 and 2007	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
Convertible preference shares of HK$0.01 each		
At 1 January 2006 and 31 December 2006	1,500,000,000	15,000
Conversion of non-redeemable preference shares	(400,000,000)	(4,000)
At 31 December 2007	1,100,000,000	11,000

31. CONVERTIBLE PREFERENCE SHARE CAPITAL – continued

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

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

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

32. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior years:

	Fair value of intangible assets HK$'000
At 1 January 2006, 31 December 2006 and 2007	5,750

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

	2007 **HK$'000**	2006 HK$'000
Tax losses:		
To expire in 2007	**–**	148
To expire in 2011	**5,627**	1,207
Carried forward indefinitely	**259,002**	215,033
	264,629	216,388

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

33. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2007	2006
	HK$'000	HK$'000
Cost of investment in unlisted associates	**4**	4
Share of post-acquisition losses *(note)*	**(21,914)**	(22,048)
	(21,910)	(22,044)

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

Details of the incorporated principal associate of the Group as at 31 December 2007 are as follows:

Name of associate	**Place of incorporation/ operation**	**Proportion of nominal value of issued ordinary capital held indirectly by the Company**	**Principal activities**
		%	
Hong Kong Landfill Restoration Group Limited	Hong Kong	34.5	Civil engineering

33. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES – continued

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

	2007	2006
	HK$'000	HK$'000
Total assets	**102,069**	92,182
Total liabilities	**(145,889)**	(136,271)
Net liabilities	**(43,820)**	(44,089)
Group's share of net liabilities of associates	**(21,910)**	(22,044)
Revenue	**25,729**	25,476
Profit (loss) for the year	**270**	(31)
Group's share of results of associates for the year	**134**	(15)

34. AMOUNTS DUE TO ASSOCIATES

The current amount due to an associate is unsecured, interest-free and repayable on demand except for an advance from an associate of HK$3,500,000 (2006: HK$3,500,000) which carries interest at one month HIBOR.

The non-current amount due to an associate is unsecured, interest-free and has no fixed repayment terms. The associate has agreed not to demand repayment within twelve months from the balance sheet date and the balance is therefore shown as non-current liabilities. The non-current amount is carried at amortised cost using effective interest of 5.3% (2006: 5.4%) per annum.

35. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the bank loans disclosed in note 29 and equity attributable to equity holders of the Company, comprising issued capital and reserves.

The directors of the Company reviews the capital structure periodically. As a part of this review, the management of the Group assesses the annual budget prepared by the treasury department which reviews the planned construction projects proposed by engineering department and prepares the annual budget taking into account of the provision of funding. Based on the proposed annual budget, the management of the Group considers the cost of capital and the risks associates with each class of capital. The directors also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from prior year.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007	2006
	HK$'000	HK$'000
Financial assets		
Held-for-trading investments	**89,763**	94,247
Loans and receivables (including cash and cash equivalents)	**298,216**	300,864
Available-for-sale financial assets	**–**	3,127
	387,979	398,238
Financial liabilities		
Amortised cost	**436,568**	454,936

37. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies

The Group's major financial instruments include debtors, amounts due from associates and jointly controlled entities, held-for-trading investments, pledged bank deposits, bank balances, creditors, amounts due to an intermediate holding company, fellow subsidiaries, an associate, jointly controlled entities and minority shareholders, dividend payable to an intermediate holding company and immediate holding company and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *currency risk*

Certain bank loans amounting to HK$19,535,000 are denominated in United States dollars which are different from the functional currency of the Group (ie. Hong Kong dollars) and therefore the Group is exposed to currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency should the need arise.

The directors of the Company are of the opinion that the Group's sensitivity to the change in United States dollars is low.

(ii) *Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings which exposed the Group to fair value interest rate risk. However, management considered the fair value interest rate risk is minimal as the amount of fixed-rate bank borrowings is immaterial.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 29 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings.

37. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk – continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings and amount due to an associate of HK$3,500,000 that carry interest at one month HIBOR at the balance sheet date.

For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$1,570,000 (2006: decrease/increase by HK$1,648,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate bank loans.

(iii) Other price risks

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

Other price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2007 would increase/decrease by HK$4,488,000 (2006: increase/decrease by HK$4,712,000) as a result of the changes in fair value of held-for-trading investments.

The Group's sensitivity to available-for-sale investments has not changed significantly from 2006.

37. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as a substantial portion of its trade debtors is generated from a limited number of customers.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk for bank deposits is limited because the counterparties are banks or financial institutions with high credit ratings.

Liquidity risk

The Group's liquidity position and its compliance with lending covenants is monitored closely by the management of the Company, to ensure that it maintains sufficient reserve of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirement in the short and longer term. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

37. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables – continued

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Non-interest bearing	0	242,902	1,773	5,860	16,093	22,098	288,726	278,875
Fixed interest rate instruments	8.89	55	55	110	418	90	728	644
Variable interest rate instruments	4.59	157,650	-	-	-	-	157,650	157,049
		400,607	1,828	5,970	16,511	22,188	447,104	436,568

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006								
Non-interest bearing	0	263,113	2,732	236	10,567	23,941	300,589	290,166
Variable interest rate instruments	5.83	92,346	9,642	9,642	40,223	17,635	169,488	164,770
		355,459	12,374	9,878	50,790	41,576	470,077	454,936

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

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

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2006, the repayment of other borrowings amounting to HK$28,302,000 was by way of a disposal of the Group's certain available-for-sale investments for a consideration of HK$28,302,000.

39. CONTINGENT LIABILITIES

	2007 HK$'000	2006 HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**110,055**	54,692

40. COMMITMENTS

(a) Joint venture commitment

At 31 December 2006, the Group had committed to increase its investment in a joint venture established in the PRC by approximately HK$11,952,000. The joint venture is principally engaged in civil engineering activities in the PRC. This commitment is fully satisfied during the year.

(b) Operating lease commitments

Lessee

At 31 December 2007, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	**2,599**	3,151
In the second to fifth years inclusive	**243**	1,926
	2,842	5,077

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

41. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to the consolidated income statement of HK$10,286,000 (2006: HK$8,076,000) represents contributions paid or payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

42. RELATED PARTY TRANSACTIONS

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

	2007	2006
	HK$'000	HK$'000
Immediate holding company		
Corporate guarantee fee expense	**456**	913
Associates		
Interest expense	**141**	158
Secretarial and management service income	**1,800**	850
Jointly controlled entities		
Interest income	**164**	–

42. RELATED PARTY TRANSACTIONS – continued

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

Compensation of key management personnel

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

	2007	2006
	HK$'000	HK$'000
Short-term benefits	**12,998**	12,611
Post-employment benefits	**785**	679
	13,783	13,290

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

At 31 December 2007, Wai Kee provided corporate guarantees amounting to HK$54,547,000 (2006: HK$64,035,000) to several banks to secure the general banking facilities granted to the Group.

At 31 December 2007 and 31 December 2006, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

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

43. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Investment in a subsidiary	**60,000**	60,000
Amounts due from subsidiaries	**35,215**	49,375
Other current assets	**90**	128
Other current liabilities	**(4,997)**	(4,457)
Bank loans	**(39,735)**	(52,868)
	50,573	52,178
Share capital	**82,141**	78,141
Convertible preference share capital	**11,000**	15,000
Reserves	**(42,568)**	(40,963)
	50,573	52,178

44. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Allied Wise Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Amazing Reward Group Limited	British Virgin Islands ("BVI")	Hong Kong	US$1,000,000	100	Investment holding
Build King Construction Company Limited	Macau	Macau	MOP25,000	100	Construction and civil engineering
Graphic Construction Company Limited	Macau	Macau	MOP25,000	100	Construction and civil engineering
Hsin Lung Construction Company Limited	Taiwan	Taiwan	NT$175,000,000	100	Civil engineering
Innocity International Limited	Hong Kong	Hong Kong	HK$1	100	Investment holding
Kaden Construction Limited	United Kingdom	Hong Kong	GBP8,400,000	100	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares	100	Civil engineering
			HK$24,000,000 Non-voting deferred shares	100	
Leader Construction Company Limited	Hong Kong	Hong Kong	HK$2	100	Provision of administrative and management services to group companies
Leader Construction Overseas Limited	Hong Kong	Hong Kong	HK$20	100	Investment holding

44. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK$200,000	100	Marine engineering and provision of transportation services
Leader Marine L.L.C.	Sharjah, UAE	UAE	Dh300,000	100	Ships and boats rental and shipping services
Leader Marine Cont. L.L.C.	Sharjah, UAE	UAE	Dh300,000	100	First class cont. relating buildings, harbour contracts
Profound Success Limited	BVI	Hong Kong	US$1	100	Investment holding
Smart Start Investments Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US$1	100	Investment holding
W K Aviation Engineering Company Limited	Hong Kong	Hong Kong	HK$10	70	Engineering
Wai Kee China Construction Company Limited	Hong Kong	Hong Kong	HK$10,000,000	100	Civil engineering
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK$2 Ordinary shares HK$14,800,000 Non-voting deferred shares HK$5,200,000 Non-voting deferred shares *(note 1)*	100	Civil engineering
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK$1	100	Provision of secretarial and nominee services
Wuxi Qianhui Sewage Treatment Co., Ltd. *(note 2)*	PRC	PRC	US$5,400,000	95.6	Sewage treatment

44. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
惠科(上海)航空工程咨詢有限公司 *(note 3)*	PRC	PRC	HK$1,000,000	70	Consulting aviation business
惠記環保工程(上海)有限公司 *(note 3)*	PRC	PRC	US$800,000	100	Environmental engineering

Notes:

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

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

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

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

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

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

RESULTS

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)			
Group revenue	640,755	368,731	544,960	605,927	**799,886**
Share of revenue of jointly controlled entities	566,500	372,031	151,407	383,525	**486,452**
	1,207,255	740,762	696,367	989,452	**1,286,338**
Group revenue	640,755	368,731	544,960	605,927	**799,886**
Operating profit (loss)					
Company and subsidiaries	(50,199)	(97,708)	(30,428)	12,985	**689**
Share of results of jointly controlled entities	91,256	173,423	63,451	26,860	**29,045**
Share of results of associates	893	904	1,655	(15)	**134**
Amortisation of goodwill of subsidiaries	–	(1,421)	–	–	**–**
Finance costs	(2,196)	(195)	(3,163)	(6,746)	**(12,214)**
Profit before tax	39,754	75,003	31,515	33,084	**17,654**
Income tax expense	(6,695)	(19,444)	207	(25,691)	**(6,781)**
Profit for the year	33,059	55,559	31,722	7,393	**10,873**

FINANCIAL POSITION

	As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	421,724	411,046	521,269	654,617	**676,358**
Total liabilities	(358,247)	(294,489)	(367,014)	(492,460)	**(496,567)**
	63,477	116,557	154,255	162,157	**179,791**

BOARD OF DIRECTORS

Executive Directors

Zen Wei Peu, Derek *(Chairman)*
Yu Sai Yen *(Vice Chairman)*

Non-executive Directors

David Howard Gem
Cheng Chi Pang, Leslie
Lam Wai Hon, Patrick

Independent Non-executive Directors

Chow Ming Kuen, Joseph
Ng Chi Ming, James
Ho Tai Wai, David

AUDIT COMMITTEE

Ng Chi Ming, James *(Chairman)*
Chow Ming Kuen, Joseph
Ho Tai Wai, David
David Howard Gem

REMUNERATION COMMITTEE

Chow Ming Kuen, Joseph *(Chairman)*
Ng Chi Ming, James
Ho Tai Wai, David
Zen Wei Peu, Derek

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Richards Butler in association with
Reed Smith LLP
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
CITIC Ka Wah Bank Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd.
(Hong Kong Branch)

COMPANY SECRETARY

Chang Kam Chuen, Desmond

QUALIFIED ACCOUNTANT

Chang Kam Chuen, Desmond

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