1. GENERAL

The Company was 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").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 54, 24 and 25, respectively.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs has had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented except for the application of HKAS 39 (Amendment) *The Fair Value Option*.

Prior to 1st January, 2006, the Group designated certain investments as at fair value through profit or loss. The amendment, however, only allows recognising a financial asset or financial liability as at fair value through profit or loss when it meets certain conditions. Upon application of this amendment, the Group has reclassified certain equity instruments which do not meet the conditions to be designated as at fair value through profit or loss to "available-for-sale investments". The effect of the changes in accounting policies as a result of the adoption of HKAS 39 (Amendment) *The Fair Value Option* is summarised as follows:

Investments at fair value through profit or loss amounting to HK$8,203,000 as at 1st January, 2005 were de-designated and recognised as available-for-sale investments. The amount of the relevant investment as at 31st December, 2005 was HK$4,503,000.

The application of HKAS 39 (Amendment) *The Fair Value Option* has had no material effect on the results for the current and prior years. An impairment of the above investment has been recognised in profit or loss of current year and prior year of HK$4,503,000 and HK$3,700,000 respectively.

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

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS 8	Operating segments[7]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) — INT 8	Scope of HKFRS 2[3]
HK(IFRIC) — INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) — INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions[6]
HK(IFRIC) — INT 12	Service concession arrangements[8]

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority 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.

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity (which is accounted for using equity method) for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary, associate or jointly controlled entity (which is accounted for using equity method) at the date of acquisition. For previously capitalised goodwill, the Group has discontinued amortisation from 1st 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 1st January, 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity (which is accounted for using equity method) for which the agreement date is on or after 1st 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 subsidiary, associate or jointly controlled entity (which is accounted for using equity method) at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1st 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 a subsidiary, an associate or a jointly controlled entity (which is accounted for using equity method), the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Goodwill arising on the acquisition of associates or jointly controlled entities (which is accounted for using equity method) is included within the carrying amount of the associates or jointly controlled entities. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which an agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition of a subsidiary is recognised immediately in profit or loss.

Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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, 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.

Others

Sale of goods is recognised when goods are delivered and title has passed.

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 shareholder's 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 property and plant under construction, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Property and plant under construction represents 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

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.

Impairment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests 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 the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Jointly controlled entities

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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.

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

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 instrument. 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

Financial assets are classified into one of the following categories, including loans and receivables, held-for-trading investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Held-for-trading investments

At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Available-for-sale financial assets

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

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

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

The Group's structured borrowing is designated as financial liability at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, financial liabilities 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.

Financial liabilities

Financial liabilities (including creditors, amounts due to jointly controlled entities, associates, a related company and minority shareholders, bank and other borrowings, and loans from minority shareholders) are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

Equity instruments

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

Derecognition

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair values at the inception of the leases or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, 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.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the 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 Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised 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.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset 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.

Retirement benefit schemes contributions

Payments to the Group's defined contribution retirement benefit plans, including state-managed retirement schemes and mandatory provident fund schemes ("MPF Schemes"), are charged as expenses when employees have rendered service entitling them to the contributions.

Impairment — other than goodwill and intangible assets with indefinite useful lives

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are 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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of intangible assets with indefinite useful lives

During the year, management considered the recoverability of the intangible assets (i.e. construction licences with indefinite useful lives) which is included in the consolidated balance sheet at 31st December, 2006 at HK$32,858,000 (2005: HK$32,858,000). The construction projects continue to progress in a very satisfactory manner, and the recent new projects successfully secured by the Group has reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licences. However, increased market competition has caused management to reconsider its assumptions regarding future market shares and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. As at 31st December, 2006, the carrying amount of goodwill is HK$35,950,000 (2005: HK$35,950,000). Details of the recoverable amount calculation are disclosed in note 23.

Income tax

As at 31st December, 2006, a deferred tax asset of HK$71,080,000 (2005: HK$46,792,000) in relation to unused tax losses has not been recognised in the Group's balance sheet. In cases where the actual future profits generated are more than expected, the income tax liabilities arising can be offset by the unrecognised tax losses brought forward. The tax credit would be recognised in the consolidated income statement for the period in which such recognition takes place.

Construction contracts

For the year ended 31st December 2006, the Group recognised losses of HK$34,438,000 on certain construction contracts, which were calculated from the latest available budgets of those construction contracts which were prepared by management of the Group.

For the year ended 31st December 2006, the Group's recognised profit of HK$32,610,000 from construction contracts carried out by its jointly controlled entities, which were principally calculated from the latest available budgets of those construction contracts prepared by management of respective jointly controlled entities.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group had delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Market risk

Cash flow interest rate risk

In respect of the structured borrowing, the repayment amounts are based on the spread rates between 10 years US$-ISDA-Swap Rate and 2 years US$-ISDA-Swap Rate, the entire borrowing is designated as fair value through profit or loss as disclosed in note 37. The management closely monitors the potential interest risk related to the structured borrowing on a continuing basis. Based on the historical data of the spread rates, the level of interest rate exposure so far is acceptable to the Group.

Other than the structured borrowing, variable-rate bank borrowing also exposed the Group to cash flow interest rate risk (see note 36). Majority of the bank borrowings are at variable-rate and determined by reference to the prevailing market rate. The Group currently does not have an interest rate hedging policy. However, the management monitors closely the interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

5. FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value 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 all the fixed-rate bank borrowings are repayable within one year.

Currency risk

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

The revenue and the borrowings of the Group are predominately in Hong Kong dollars, the functional currency of the Company. Therefore, the exposure of the Group to foreign currency risk is considered to be minimal.

Price risk

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

b. Fair value

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

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

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

- the fair value of financial liabilities at fair value through profit or loss is estimated using discount cash flow analysis and applicable yield curve.

Except as indicated in the relevant notes in the consolidated financial statements, 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.

6. TURNOVER

	2006 HK$'000	2005 HK$'000
Group turnover	**678,236**	595,306
Share of turnover of jointly controlled entities	**383,525**	151,407
Group turnover and share of turnover of jointly controlled entities	**1,061,761**	746,713
Group turnover analysed by revenue from:		
Civil construction	**605,927**	544,960
Quarrying	**42,609**	32,224
Bio-technology	**22,801**	18,122
Others	**6,899**	—
	678,236	595,306

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and profit for the year ended 31st December, 2006 and 2005 by business segments (primary) and geographical segments are as follows:

(a) Business segments

For management purposes, the Group classifies its businesses into four major operating divisions. These divisions are the basis on which the Group reports its primary segment information and their principal activities are as follows:

Civil construction
— construction of civil engineering projects

Quarrying
— production and sale of quarry products

Bio-technology
— research, development, production and sale of bio-technology products

Highway and expressway operations and property development (operated through an associate of the Group)
— investment in, development, operation and management of highways and expressways, and investment in property development projects

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	Civil construction HK$'000	Quarrying HK$'000	Bio-technology HK$'000	Highway and expressway operations and property development HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Year ended 31st December, 2006							
Turnover							
Group/Segment turnover	605,927	42,609	22,801	—	6,899	—	678,236
Results							
Segment results	(20,783)	13,939	(32,449)	—	(6,248)		(45,541)
Investment income, gains and losses							35,707
Unallocated net expenses							(37,186)
Finance costs							(10,811)
Share of results of associates	(15)	—	—	302,873	(17,808)		285,050
Share of results of jointly controlled entities	26,860	—	—	—	—		26,860
Discount on acquisition of additional interest in an associate	—	—	—	1,323	—		1,323
Net gain on deemed disposals of partial interest in an associate	—	—	—	36,085	—		36,085
Profit before taxation							291,487
Income tax expense							(25,948)
Profit for the year							265,539
As at 31st December, 2006							
Assets							
Segment assets	401,858	40,563	52,410	—	10,411		505,242
Interests in associates	—	—	—	2,689,342	18,259		2,707,601
Interests in jointly controlled entities	60,869	—	—	—	—		60,869
Unallocated corporate assets							328,476
Total consolidated assets							3,602,188
Liabilities							
Segment liabilities	210,745	27,540	8,395	—	22,045		268,725
Obligations in excess of interests in associates	22,044	—	—	—	—		22,044
Unallocated corporate liabilities							410,374
Total consolidated liabilities							701,143
Other information							
Capital additions	33,859	1,749	4,570	—	3,886		44,064
Depreciation	9,752	1,240	3,042	—	1,524		15,558
Amortisation of prepaid lease payments on land use rights	—	—	159	—	—		159
Allowance for doubtful debts	—	—	1,602	—	—		1,602
Gain on disposal of property, plant and equipment, net	9,291	989	—	—	5,596		15,876
Impairment loss recognised in respect of property, plant and equipment	—	—	15,000	—	—		15,000
Write-down of inventories	—	—	4,731	—	—		4,731

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	Civil construction *HK$'000*	Quarrying *HK$'000*	Bio-technology *HK$'000*	Highway and expressway operations and property development *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Year ended 31st December, 2005							
Turnover							
Group turnover	544,960	32,224	18,122	—	—	—	595,306
Add: Inter-segment sales	—	2,717	—	—	—	(2,717)	—
Segment turnover	544,960	34,941	18,122	—	—	(2,717)	595,306

Inter-segment sales are charged at prevailing market rates.

	Civil construction *HK$'000*	Quarrying *HK$'000*	Bio-technology *HK$'000*	Highway and expressway operations and property development *HK$'000*	Others *HK$'000*	Elimination *HK$'000*	Total *HK$'000*
Results							
Segment results	(30,002)	4,472	(11,457)	—	(888)		(37,875)
Investment income, gains and losses							(5,765)
Unallocated net expenses							(23,261)
Finance costs							(5,136)
Share of results of associates	1,655	—	—	197,386	3,875		202,916
Share of results of jointly controlled entities	63,451	—	—	—	—		63,451
Discount on acquisition of additional interest in an associate	—	—	—	24,113	—		24,113
Loss on deemed disposals of partial interest in an associate	—	—	—	(7,516)	—		(7,516)
Profit before taxation							210,927
Income tax credit							35
Profit for the year							210,962
As at 31st December, 2005							
Assets							
Segment assets	300,458	41,105	64,046	—	6,272		411,881
Interests in associates	—	—	—	2,408,247	4,286		2,412,533
Interests in jointly controlled entities	54,154	—	—	—	—		54,154
Unallocated corporate assets							244,301
Total consolidated assets							3,122,869
Liabilities							
Segment liabilities	168,184	27,405	9,443	—	10,954		215,986
Obligations in excess of interests in associates	22,029	—	—	—	—		22,029
Unallocated corporate liabilities							212,653
Total consolidated liabilities							450,668
Other information							
Intangible assets addition	32,858	—	—	—	—		32,858
Capital additions	8,741	—	27,678	—	971		37,390
Capital additions through acquisition of subsidiary	237	—	—	—	—		237
Depreciation	6,674	1,347	2,513	—	384		10,918
Amortisation of prepaid lease payments on land use rights	—	—	67	—	—		67
Allowance for doubtful debts	—	—	616	—	—		616
Gain on disposal of property, plant and equipment, net	30	3,299	—	—	11		3,340
Write-down of inventories	—	—	1,357	—	—		1,357

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

The following is an analysis of the group turnover by the geographical market:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**540,116**	560,182
Other regions in the People's Republic of China ("PRC")	**120,469**	23,950
Middle East	**17,651**	11,174
Taiwan	**—**	—
	678,236	595,306

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of total assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets located in:				
Hong Kong	**295,836**	225,078	**4,237**	34,249
Other regions in the PRC	**187,190**	157,529	**39,676**	35,687
Middle East	**15,400**	22,167	**131**	549
Taiwan	**6,816**	7,107	**20**	—
Total segment assets	**505,242**	411,881	**44,064**	70,485
Interests in associates	**2,707,601**	2,412,533		
Interests in jointly controlled entities	**60,869**	54,154		
Unallocated corporate assets	**328,476**	244,301		
Total consolidated assets	**3,602,188**	3,122,869		

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Other income includes the following:		
Interest on bank deposits	1,637	859
Interest on finance lease receivables	120	174
Interest on loans receivable	1,463	—
Gain on disposal of property, plant and equipment, net	15,876	3,340
Service income from jointly controlled entities for management services rendered	—	4,487
Exchange gains, net	6	2,275
Refund of value-added tax	—	1,309
Service income from associates for secretarial and management services rendered	850	850
Technical consultancy fee income	720	708
Recovery of bad debt previously written off	2,298	—

9. INVESTMENT INCOME, GAINS AND LOSSES

	2006	2005
	HK$'000	*HK$'000*
Interest on held-for-trading investments	—	462
Dividend income from held-for-trading investments	3,001	2,886
Change in fair value of held-for-trading investments	36,561	(6,495)
Impairment loss on available-for-sale investments	(4,503)	(3,700)
Gain on disposal of commodity assets	648	1,082
	35,707	(5,765)

10. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	11,899	4,244
Interest bearing amount due to an associate	158	—
Imputed interest expense on non-current interest free amount due to an associate	176	—
Imputed interest expense on non-current interest free loan from a former shareholder of a subsidiary	—	892
	12,233	5,136
Less: amount capitalised in property and plant under construction	(1,422)	—
	10,811	5,136

11. DISCOUNT ON ACQUISITION OF ADDITIONAL INTEREST IN AN ASSOCIATE

During the year, the Group acquired, in aggregate, an additional 0.6% (2005: 1.4%) of the issued share capital of an associate, Road King Infrastructure Limited ("Road King"), at a consideration of HK$27,839,000 (2005: HK$47,161,000), while the carrying value of the Group's share of the identifiable assets and liabilities of the associate at the respective dates of acquisition attributed to the acquired interest, in aggregate, amounted to HK$29,162,000 (2005: HK$71,274,000). The excess of the carrying value over the cost of acquisition is credited to the consolidated income statement.

12. NET GAIN (LOSS) ON DEEMED DISPOSALS OF PARTIAL INTEREST IN AN ASSOCIATE

	2006	2005
	HK$'000	*HK$'000*
Gain (loss) on deemed disposals of partial interest in an associate arising from:		
Placement of new shares	**64,646**	—
Exercise of options granted to its directors and employees	**(28,561)**	(7,516)
	36,085	(7,516)

During the year, the Group's associate, Road King, issued 80,000,000 (2005: nil) ordinary shares at a price of HK$10.96 per share by respective placement to various investors, and also issued 19,200,000 (2005: 4,774,000) ordinary shares at the weighted average exercise price of HK$5.52 (2005: HK$5.21) per share upon exercise of options granted to the directors and employees of Road King under the share option scheme of Road King. As a result, the interest of the Group in Road King was reduced in aggregate by 6.7% (2005: 0.4%) resulting in a total net gain of HK$36,085,000 (2005: net loss of HK$7,516,000).

13. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration		
Provision for the current year	**3,257**	3,000
Under(over)provision in prior years	**152**	(96)
	3,409	2,904
Depreciation:		
Owned assets	**16,429**	11,456
Assets held under finance lease and sale and leaseback arrangement	**26**	47
	16,455	11,503
Less: Amount attributable to inventories and construction contracts	**(897)**	(585)
	15,558	10,918
Amortisation of prepaid lease payments on land use rights	**159**	67
Consultancy fee paid to an associate	**—**	11,313
Write-down of inventories	**4,731**	1,357
Allowance for doubtful debts	**1,602**	616
Hire charges for plant and machinery	**41,227**	42,548
Less: Amount attributable to construction contracts and cost of sales	**(41,227)**	(42,548)
	—	—
Share of tax charge of associates (included in share of results of associates)	**30,062**	10,526
Share of tax charge (credit) of jointly controlled entities (included in share of results of jointly controlled entities)	**1,790**	(3,289)
Staff costs:		
Directors' remuneration *(note 15)*	**14,460**	13,024
Other staff costs	**170,344**	185,331
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$373,000 (2005: HK$192,000)	**9,130**	8,821
	193,934	207,176
Less: Amount attributable to construction contracts and cost of sales	**(117,927)**	(122,313)
	76,007	84,863
Operating lease rentals in respect of land and buildings	**5,995**	5,048
Less: Amount attributable to construction contracts	**(68)**	(68)
	5,927	4,980

14. INCOME TAX EXPENSE (CREDIT)

	2006 *HK$'000*	2005 *HK$'000*
Income tax for the year		
Hong Kong	**5,157**	2,221
Other jurisdictions	**257**	172
	5,414	2,393
Under(over)provision in prior years		
Hong Kong	**20,472**	(2,567)
Other jurisdictions	**62**	139
	20,534	(2,428)
	25,948	(35)

Details of deferred tax are set out in note 39.

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Income tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

In 2002, Zen Pacific Civil Contractors Limited ("ZPCCL") and Leader Civil Engineering Corporation Ltd. ("LCECL"), both of them being 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 which 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 31st December, 2005.

During 2006, Inland Revenue Department ("IRD") of the Hong Kong Special Administrative Region (the "HKSAR") informed the Group 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, 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.

14. INCOME TAX EXPENSE (CREDIT) *(Continued)*

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

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

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

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

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

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**291,487**	210,927
Income tax expense at the applicable rate of 17.5% (2005: 17.5%)	**51,010**	36,912
Tax effect of expenses not deductible for tax purpose	**13,190**	8,789
Tax effect of tax losses not recognised	**10,243**	18,476
Tax effect of income not taxable for tax purpose	**(13,133)**	(9,718)
Under(over)provision in prior years	**20,534**	(2,428)
Tax effect of utilisation of tax losses not previous recognised	**(4,079)**	(3,388)
Effect of different tax rates for the operations in other jurisdictions	**1,832**	(1,016)
Tax effect of share of results of associates	**(49,884)**	(35,510)
Tax effect of share of results of jointly controlled entities	**(4,701)**	(11,104)
Others	**936**	(1,048)
Income tax expense (credit) for the year	**25,948**	(35)

15. DIRECTORS' REMUNERATION

Details of the directors' remuneration are as follows:

	Fee *HK$'000*	Salary and other benefits *HK$'000*	Performance related incentive payments *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total *HK$'000*
Year ended 31st December, 2006					
Executive directors:					
Zen Wei Pao, William	—	62	5,000	320	5,382
Zen Wei Peu, Derek	—	1,971	5,000	281	7,252
Chiu Wai Yee, Anriena	—	740	—	66	806
	—	2,773	10,000	667	13,440
Non-executive directors:					
Lam Wai Hon, Patrick	145	—	—	—	145
Cheng Chi Pang, Leslie	145	—	—	—	145
Chu Tat Chi	145	—	—	—	145
	435	—	—	—	435
Independent non-executive directors:					
Wong Che Ming, Steve	195	—	—	—	195
Wan Siu Kau, Samuel	195	—	—	—	195
Wong Man Chung, Francis	195	—	—	—	195
	585	—	—	—	585
	1,020	2,773	10,000	667	14,460

15. DIRECTORS' REMUNERATION *(Continued)*

	Fee	Salary and other benefits	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December, 2005					
Executive directors:					
Zen Wei Pao, William	—	316	4,000	305	4,621
Zen Wei Peu, Derek	—	2,117	4,000	271	6,388
Chiu Wai Yee, Anriena	—	336	26	34	396
Fong Shiu Leung, Keter	—	631	217	46	894
	—	3,400	8,243	656	12,299
Non-executive directors:					
Lam Wai Hon, Patrick	145	—	—	—	145
Cheng Chi Pang, Leslie	145	—	—	—	145
	290	—	—	—	290
Independent non-executive directors:					
Wong Che Ming, Steve	145	—	—	—	145
Wan Siu Kau, Samuel	145	—	—	—	145
Wong Man Chung, Francis	145	—	—	—	145
	435	—	—	—	435
	725	3,400	8,243	656	13,024

The performance related incentive payment is determined as a percentage of the profit of the Group for both years.

There was no arrangement under which a director waived or agreed to waive any remuneration and no payment of inducement fees and compensation for loss of office as director during both the current and last year.

16. EMPLOYEES' EMOLUMENTS

Details of the emoluments of the five highest paid individuals included two directors (2005: two directors) set out above. The emoluments of the remaining three (2005: three) highest paid individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salary and other benefits	**5,014**	4,484
Performance related incentive payments	**—**	1,751
Retirement benefits scheme contributions	**376**	298
	5,390	6,533

The emoluments were within the following bands:

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

17. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Dividends recognised as distributions during the year:		
Final dividend for the year ended 31st December, 2005: HK9 cents (2004: HK6 cents) per share	**71,381**	47,588
Interim dividend for the year ended 31st December, 2006: HK6 cents (2005: HK6 cents) per share	**47,588**	47,587
	118,969	95,175

A final dividend for the year ended 31st December, 2006 of HK6 cents (2005: HK9 cents) per ordinary share, amounting to approximately HK$47,587,000 (2005: HK$71,381,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. This final dividend has not been included as a liability in the consolidated financial statements.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**262,615**	199,891
Effect of dilutive potential ordinary shares:		
Decrease in share of profit of an associate arising from exercise of share options issued by that associate	**(4,605)**	—
Earnings for the purpose of diluted earnings per share	**258,010**	199,891

	Number of shares	
Number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share	**793,124,034**	793,124,034

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Vessels	Property and plant under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*
COST								
At 1st January, 2005	61,100	12,426	235,163	25,150	9,992	103,367	—	447,198
Exchange realignment	78	—	170	46	15	—	—	309
Acquisition of subsidiaries	—	46	—	191	—	—	—	237
Additions	18,817	727	7,932	1,101	716	572	7,525	37,390
Disposals	—	—	(13,538)	(43)	(460)	(3,015)	—	(17,056)
At 31st December, 2005	79,995	13,199	229,727	26,445	10,263	100,924	7,525	468,078
Exchange realignment	918	—	647	176	46	—	278	2,065
Additions	4,120	—	5,706	480	482	—	33,276	44,064
Disposals	(16,497)	(766)	(10,416)	(271)	(828)	(15,931)	—	(44,709)
At 31st December, 2006	68,536	12,433	225,664	26,830	9,963	84,993	41,079	469,498
DEPRECIATION								
At 1st January, 2005	55,645	12,100	222,103	22,999	9,617	80,924	—	403,388
Exchange realignment	5	—	58	29	11	—	—	103
Provided for the year	957	630	3,456	765	155	5,540	—	11,503
Eliminated on disposals	—	—	(13,538)	(21)	(414)	(2,862)	—	(16,835)
At 31st December, 2005	56,607	12,730	212,079	23,772	9,369	83,602	—	398,159
Exchange realignment	19	—	172	101	13	—	—	305
Provided for the year	1,491	246	4,572	900	256	8,990	—	16,455
Impairment loss recognised	10,355	—	4,645	—	—	—	—	15,000
Eliminated on disposals	(16,497)	(766)	(10,156)	(271)	(828)	(15,288)	—	(43,806)
At 31st December, 2006	51,975	12,210	211,312	24,502	8,810	77,304	—	386,113
CARRYING VALUES								
At 31st December, 2006	**16,561**	**223**	**14,352**	**2,328**	**1,153**	**7,689**	**41,079**	**83,385**
At 31st December, 2005	23,388	469	17,648	2,673	894	17,322	7,525	69,919

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 be transferred to the People's Government of Qian Qiag then at zero consideration. The construction cost of the sewage treatment plant is estimated to be approximately HK$42 million. The construction work of the sewage treatment plant is expected to be completed in the first quarter of 2007 and the sewage treatment plant shall commence operation thereafter.

19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis and after taking into account of their estimated residual value at the following rates per annum:

Buildings	4% or over the terms of the relevant leases, whichever is shorter
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 carrying value of property, plant and equipment in respect of assets held under finance lease and sale and leaseback arrangement is HK$13,000 (2005: HK$38,000).

During the year, the Group carried out a review of the recoverable amount of its property, plant and equipment used in the Group's bio-technology segment in light of continuous loss of this segment. The review led to the recognition of an impairment loss of HK$15,000,000 (2005: nil), that has been recognised in the consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 12% per annum.

20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2006	2005
	HK$'000	*HK$'000*
Medium-term leasehold land in PRC	**5,657**	5,533
Analysed for reporting purposes as:		
Non-current asset	**5,492**	5,419
Current asset	**165**	114
	5,657	5,533

21. INTANGIBLE ASSETS

The amount represents the fair value of the construction licences (with indefinite useful lives) held by a subsidiary acquired by the Group in 2005 (the "acquired subsidiary") as set out in note 46.

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

21. INTANGIBLE ASSETS *(Continued)*

Various studies including sensitivity analysis and market trends have been carried out by management of the Group, which supports that the construction licences have no foreseeable limit to the period over which the construction licences are expected to generate net cash inflow for the Group. As a result, the construction licences are considered by management of the Group as having indefinite useful lives because they are expected to contribute net cash inflow indefinitely. The construction licences will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars regarding the impairment testing on intangible assets are disclosed in note 23.

22. GOODWILL

	2006	2005
	HK$'000	*HK$'000*
COST		
At beginning of the year	**35,950**	37,622
Elimination of accumulated amortisation upon the adoption of HKFRS 3	**—**	(1,672)
At end of the year	**35,950**	35,950
AMORTISATION		
At beginning of the year	**—**	1,672
Elimination of accumulated amortisation upon the adoption of HKFRS 3	**—**	(1,672)
At end of the year	**—**	—
CARRYING VALUES		
At end of the year	**35,950**	35,950

The amount represents goodwill arising on the reverse acquisition of a subsidiary in 2004. In accordance with HKFRS 3, goodwill has not been amortised since 1st January, 2005 and subject to annual impairment test. Particulars regarding impairment testing on goodwill are disclosed in note 23.

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

For the purposes of impairment testing, goodwill has been allocated to the underlying cash generating units ("CGUs"), which represent subsidiaries, associates and jointly controlled entities of the Group, except for a subsidiary which was acquired in 2005 and holds the construction licences granted by the Environment, Transport, and Works Bureau of HKSAR.

For the purpose of impairment testing, intangible assets with indefinite useful lives set out in note 21 have been allocated to the CGU of the remaining subsidiary acquired in 2005, which holds the construction licences granted by the Environment, Transport, and Works Bureau of HKSAR and through which it is eligible to undertake government construction contracts for all five categories of public works with no limitation in contract sum.

During the year ended 31st December 2006, management of the Group determined that there are no impairments of any of its CGUs containing goodwill and intangible assets.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Group's management covering a period of 5 years, and a discount rate of 10% (2005: 10%). Goodwill and intangible assets are expected to generate 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.

24. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in associates		
Listed in Hong Kong	**1,430,087**	1,402,247
Unlisted	**4**	4
Net assets of an associate distributed from another associate *(note b)*	**36,878**	—
Share of post-acquisition profits (losses) and reserves, net of dividends received	**1,218,588**	988,253
	2,685,557	2,390,504
Fair value of listed investments in Hong Kong	**3,166,150**	1,523,326
Represented by:		
Interests in associates	**2,707,601**	2,412,533
Obligations in excess of interests in associates *(note c)*	**(22,044)**	(22,029)
	2,685,557	2,390,504

24. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates of the Group at 31st December, 2006 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Proportion of nominal value of issued capital/ attributable interest held by the Group %	Principal activities
Chai-Na-Ta Corp. ("CNT")	Incorporated	Canada	38.086	Production and sales of North American ginseng
Hong Kong Landfill Restoration Group Limited	Incorporated	Hong Kong	18.65 *(note d)*	Civil engineering
Road King Infrastructure Limited	Incorporated	Bermuda	39.897	Investment in and development, operation and management of highways and expressways, and property development

24. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES *(Continued)*

Notes:

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

Operating results:

	2006 *HK$'000*	2005 *HK$'000*
Turnover	**617,249**	239,388
Profit for the year	**637,488**	439,730
Profit for the year attributable to the Group	**285,050**	202,916

Financial position:

	2006 *HK$'000*	2005 *HK$'000*
Non-current assets	**5,353,694**	5,339,179
Current assets	**5,899,792**	2,109,944
Current liabilities	**(2,788,133)**	(654,050)
Non-current liabilities	**(1,620,707)**	(1,561,916)
Minority interests	**—**	(35,215)
Net assets	**6,844,646**	5,197,942
Net assets attributable to the Group	**2,685,557**	2,390,504

(b) In September 2006, Road King, an associate of the Group, distributed its entire interest in CNT by way of a special dividend. After the distribution, the Group directly held 38.086% of the issued share capital of CNT and it became an associate of the Group.

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

(d) The Group holds the effective interest in the associate through Build King Holdings Limited ("Build King"), the Company's 54.06% subsidiary whose shares are listed on the Main Board of the Stock Exchange.

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 *HK$'000*	2005 *HK$'000*
Cost of investment in unlisted jointly controlled entities	**41,287**	41,284
Share of post-acquisition profits, net of dividends received	**19,582**	12,870
	60,869	54,154

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

At 31st December, 2006, the Group had interests in the following principal jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated	PRC	13.52 *(notes a and b)*	Civil engineering
Dragages (HK) Joint Venture	Unincorporated	Hong Kong	7.57 *(notes a and b)*	Civil engineering
Hip Hing - Leader JV Limited	Incorporated	Hong Kong	18.02 *(notes a and b)*	Civil engineering
Kaden-STAMsteel Joint Venture (HAECO)	Unincorporated	Hong Kong	27.03 *(note a)*	Civil engineering
Kaden-STAMsteel Joint Venture (HKBAC)	Unincorporated	Hong Kong	38.92 *(note a)*	Civil engineering
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated	PRC	27.57 *(note a)*	Road construction
常州利駿建築工程有限公司	Incorporated	PRC	21.62 *(note a)*	Property construction

Notes:

(a) The Group holds the effective interests in the jointly controlled entities through Build King.

(b) The Group holds less than 20% interests in these entities through Build King. 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.

25. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

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

Share of results attributable to the Group:

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

Share of assets and liabilities attributable to the Group:

	2006	2005
	HK$'000	*HK$'000*
Non-current assets	**18,257**	18,343
Current assets	**240,121**	203,999
Current liabilities	**(197,097)**	(168,188)
Non-current liabilities	**(412)**	—
Net assets	**60,869**	54,154

26. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
		(Restated)
	HK$'000	*HK$'000*
Unlisted equity securities, at cost	**6,327**	34,474
Less: Impairment loss recognised	**(800)**	(800)
	5,527	33,674
Unlisted equity securities, at fair value	**—**	4,503
	5,527	38,177
Classified as:		
Non-current available-for-sale investments *(note a)*	**3,127**	3,016
Current available-for-sale investments *(note a and b)*	**2,400**	35,161
	5,527	38,177

Notes:

(a) At 31st December, 2006, the unlisted investments represent investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

(b) At 31st December, 2005, an amount of HK$28,302,000 included in current available-for-sale investments represented an 4.41% equity investment in the registered capital of Shanghai Environment Investment Company Limited ("SEICL"), a company established in the PRC. SEICL is an investment holding company whose investment targets are companies undertaking waste management projects in the PRC, including operating incinerators and landfill. The 4.41% equity investment in SEICL was pledged to another equity holder of SEICL to secure a loan of HK$28,302,000 as disclosed in note 35. During the year, the Group successfully divested its entire equity interest in SEICL for a consideration of HK$28,302,000 which was then used to repay the interest-free loan from another equity holder of SEICL.

27. PREPAID ROYALTIES

Prepaid royalties are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**3,545**	2,397
In the second to fifth year inclusive	**37,856**	42,340
	41,401	44,737
Less: Allowance	**(34,000)**	(34,000)
	7,401	10,737
Less: Amount recoverable within one year shown under current assets	**(3,545)**	(2,397)
Amount recoverable after one year	**3,856**	8,340

This amount represents the cost of construction work to be recoverable from the local government of Wanshan, in the PRC, which would be settled by a waiver of royalty fees arising from the sale of quarry products from a quarry of the Group in the PRC. Hence, in substance, it is royalty prepayment. In 2004, the directors considered the prospects of the construction industry and reassessed the likelihood of the settlement of these prepaid royalties in full through the waiver of royalty fees arising from the sale of quarry products. Based on the anticipated sales of quarry products, the directors were of the opinion that the prepaid royalties would not be recoverable in full, and accordingly an allowance of HK$34,000,000 was recognised in the consolidated income statement for the year ended 31st December, 2004.

For reporting purposes based on directors' best estimation, prepaid royalties expected to be utilised within next twelve months are classified under current assets, whereas the remaining amount is classified under non-current assets.

28. FINANCE LEASE RECEIVABLES

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

The Group 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 rates of the above finance leases range from 4% to 6% per annum for both years.

29. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**4,089**	7,345
Work in progress	**1,396**	338
Consumables	**6,239**	4,468
Finished goods	**8,156**	9,585
	19,880	21,736

The cost of inventories recognised as an expense during the year is HK$47,213,000 (2005: HK$40,199,000).

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

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

31. DEBTORS, DEPOSITS AND PREPAYMENTS

	2006	2005
	HK$'000	*HK$'000*
Trade debtors (aged analysis):		
0 to 60 days	**186,401**	104,763
61 to 90 days	**126**	121
Over 90 days	**5,316**	8,173
	191,843	113,057
Retention receivable	**19,814**	31,867
Loans receivable	**81,069**	—
Other debtors, deposits and prepayments	**52,885**	51,984
	345,611	196,908

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

During the year, the Group made cash advances of HK$45,032,000 and HK$36,037,000 to Sunco Binhai Land Limited ("Sunco A") and Sunco Real Estate Investment Limited respectively. The advance to Sunco A has been fully repaid upon completion of the Group's subscription of 5% of the enlarged issued share capital of Sunco A in January 2007. These loans carried interest at 12% per annum.

32. HELD-FOR-TRADING INVESTMENTS

	2006	2005 (Restated)
	HK$'000	*HK$'000*
Held-for-trading investments at fair value:		
Equity securities listed in Hong Kong at quoted market bid prices	**102,467**	65,550

Certain equity securities with market value of HK41,596,000 (2005: HK$20,255,200) were pledged to a bank to secure general banking facilities granted to the Group.

Even certain equity securities were pledged to the bank, the Company's directors believe that the pledged securities can be released by the bank within a short period of time upon the Group's request for the purpose of trading. Accordingly, these equity securities are classified as held-for-trading investments as of the balance sheet date.

33. OTHER FINANCIAL ASSETS

Other financial assets include amounts due from associates and jointly controlled entities, bank balances and deposits.

The amounts due from associates and jointly controlled entities are unsecured, interest free and recoverable within one year.

Bank balances and pledged bank deposits carry interest at market rates which range from 0.72% to 3.45% (2005: 0.01% to 3.95%) per annum and 2.16% to 2.23% (2005: 0.9% to 1.35%) per annum respectively.

34. CREDITORS AND ACCRUED CHARGES

	2006	2005
	HK$'000	*HK$'000*
Trade creditors (aged analysis):		
0 to 60 days	**28,835**	21,872
61 to 90 days	**12,738**	897
Over 90 days	**16,766**	7,540
	58,339	30,309
Retention payable	**22,878**	22,647
Accrued project costs	**112,038**	66,546
Other creditors and accrued charges	**88,366**	90,299
	281,621	209,801

35. OTHER BORROWINGS

Other borrowings comprise:

	2006	2005
	HK$'000	*HK$'000*
Other secured loan *(note a)*	—	28,302
Obligations under finance lease and sale and leaseback arrangement *(note b)*	**26**	42
	26	28,344
Less: Amount due within one year shown under current liabilities	**(17)**	(28,318)
Amount due after one year	**9**	26

Notes:

(a) At 31st December, 2005, other secured loan represented interest-free loan from an equity holder of SEICL and was secured by the Group's 4.41% equity interest in SEICL as disclosed in note 26. The loan was repaid during the year.

(b) The maturity of obligations under finance lease and sale and leaseback arrangement is as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**18**	18	**17**	16
In the second to fifth year inclusive	**9**	27	**9**	26
	27	45	**26**	42
Less: Future finance charges	**(1)**	(3)	**N/A**	N/A
Present value of lease obligations	**26**	42	**26**	42
Less: Amount due within one year shown under current liabilities			**(17)**	(16)
Amount due after one year			**9**	26

The lease terms range from 4.5 years to 5 years. Interest rates underlying all obligations under finance lease and sale and leaseback arrangement are fixed at respective contract dates ranging from 5.7% to 11.5% per annum for both years.

36. BANK LOANS

	2006	2005
	HK$'000	*HK$'000*
The maturity of the bank loans is as follows:		
Within one year	**170,602**	74,215
In the second year	**36,294**	18,200
In the third to fifth year inclusive	**32,624**	35,200
	239,520	127,615
Less: Amount due within one year shown under current liabilities	**(170,602)**	(74,215)
Amount due after one year	**68,918**	53,400
Secured	**68,000**	18,000
Unsecured	**171,520**	109,615
	239,520	127,615

Bank loans include approximately HK$13,000,000 (2005: HK$9,615,000) fixed rate borrowings which carry interest ranging from 5.85% to 6.11% (2005: 5.02%).

The remaining bank loans are variable-rate borrowings which carry interest ranging from 5% to 10% (2005: 2% to 7%) per annum. Interest is repricing every one, two, three or six months.

37. STRUCTURED BORROWING

During the year, the Group entered into a contract of structured borrowing with a bank for a period of five years. The entire contract was designated as financial liabilities at fair value through profit or loss.

	2006	2005
	HK$'000	*HK$'000*
Structured borrowing, classified as:		
Current *(note a and b)*	**12,480**	—
Non-current *(note a)*	**60,789**	—
	73,269	—

Notes:

(a) The structured borrowing contains embedded derivatives which are not closely related to the host contract, hence the entire combined contract was designated as at fair value through profit or loss upon initial recognition.

(b) The current portion represents the minimum amount repayable to the bank within one year.

37. STRUCTURED BORROWING *(Continued)*

Major terms of the structured borrowing are set out below:

At 31st December, 2006

Notional amount	Upfront Payment	Maturity date	Repayment amount
US$80,000,000	US$8,000,000	4th October, 2011	First half year: 2% on notional amount Remaining 4 and half years: 8% minus (6% x N/M) on notional amount

Where:

N = number of business days in the period for which Spread Rate > -0.05%
M = actual number of business days in the period

"Spread Rate" means 10 years US$-ISDA-Swap Rate minus 2 years US$-ISDA-Swap Rate

"10 years US$-ISDA-Swap Rate" means the rate for a reset date will be the rate for U.S. Dollar swaps with a maturity of the designated maturity of 10 years, expressed as a percentage which appears on the Reuters Screen ISDAFIX1 Page as of 11:00 a.m. New York time on each business day.

"2 years US$-ISDA-Swap Rate" means the rate for a reset date will be the rate for U.S. Dollar swaps with a maturity of the designated maturity of 2 years, expressed as a percentage which appears on the Reuters Screen ISDAFIX1 Page as of 11:00 a.m. New York time on each business day.

The entire combined contract is measured at fair value as estimated using discounted cash flow analysis and the applicable yield curve at 31st December, 2006 and change in its fair value of HK$10,869,000 as compared with the upfront payment received has been charged to the consolidated income statement.

38. OTHER FINANCIAL LIABILITIES

Other financial liabilities include amounts due to jointly controlled entities, associates, a related company and minority shareholders.

The amounts due to jointly controlled entities, associates and minority shareholders are unsecured, interest free and repayable on demand.

The related company is a subsidiary of one of the Company's substantial shareholders. The amount is unsecured, carries interest at prime rate of 7.75% (2005: 7.75%) and is repayable on demand.

39. DEFERRED TAX LIABILITIES

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

	Fair value of intangible assets *HK$'000*
At 1st January, 2005	—
Acquired on acquisition of a subsidiary *(note 46)*	5,750
At 31st December, 2005 and 2006	**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:

	2006 ***HK$'000***	2005 *HK$'000*
Tax losses to expire in:		
2006	—	11,410
2007	**4,452**	4,984
2008	**4,894**	4,894
2009	**19,222**	19,222
2010	**15,906**	15,906
2011	**18,872**	—
Carried forward indefinitely	**286,720**	161,601
	350,066	218,017

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

40. LOANS FROM MINORITY SHAREHOLDERS

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

41. AMOUNT DUE TO AN ASSOCIATE

The amount 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 effective interest rate applied is 5.4% per annum.

42. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

43. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	**2006**	2005
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning and end of the year	**793,124**	793,124	**79,312**	79,312

44. SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the Company at the annual general meeting held on 18th September, 2002 to comply with Chapter 17 of the Listing Rules.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries. The participants include any full-time employees, executives or officers and directors (executive and non-executive directors) of the Company and/or any of its subsidiaries.

Under the Share Option Scheme and any other schemes of the Company, the total number of shares which may be issued must not in aggregate exceed 10% (the "10% Limit") of the shares in issue as at the date of adoption of the Share Option Scheme less the aggregate of exercised, cancelled and outstanding options. The 10% Limit may be refreshed with the approval of shareholders of the Company. The maximum number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares in issue unless the same is approved by shareholders of the Company.

The option period commences on the first anniversary of the commencement date (the date upon which the options are deemed to be granted and accepted) of such options and ends on the fourth anniversary of the commencement date. The option must be held by the participant for a year before it can be exercised. Each participant must pay HK$1 as consideration for the grant of option within 30 days from the date of offer.

The exercise price shall be determined by the directors of the Company, being not less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer; (b) the average of the official closing prices of the shares stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of offer; and (c) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 18th September, 2002. During both years, no options were granted and outstanding under the Share Option Scheme.

45. RESERVES

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

46. ACQUISITION OF A SUBSIDIARY

On 15th June, 2005, Profound Success Limited ("PSL"), a wholly-owned subsidiary of Build King acquired an additional 49% of the issued share capital of Kaden Construction Limited (formerly known as Kier Hong Kong Limited) ("Kaden") at a consideration of HK$21,630,000. The acquisition has been accounted for by the acquisition method of accounting. Prior to the acquisition, PSL was interested in 49.5% of the issued share capital of Kaden. Upon the completion of the acquisition in 2005, Kaden became a 53.2% owned subsidiary of the Group.

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

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

Kaden contributed HK$118,258,000 to the turnover of the Group but had no contribution to the Group's profit for the period between the date of acquisition and 31st December, 2005.

46. ACQUISITION OF A SUBSIDIARY *(Continued)*

If the acquisition had been completed on 1st January, 2005, total group turnover would have been increased by HK$120,030,000 but the profit would have had no change for the year ended 31st December, 2005. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005 nor is it intended to be a projection of future results.

47. COMMITMENTS

(a) Joint venture commitments

At 31st December, 2006, the Group had committed to increase investment of approximately HK$11,952,000 in a joint venture established in the PRC. The joint venture is principally engaged in civil engineering activities in the PRC. The above joint venture commitment is expected to satisfy in 2007.

(b) Operating lease commitments

Lessor

At 31st December, 2006, the Group leased the Group's properties and contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**390**	390
In the second to fifth year inclusive	**10**	86
	400	476

Lessee

At 31st December, 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**5,599**	4,645
In the second to fifth year inclusive	**2,755**	5,216
	8,354	9,861

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.

48. PLEDGE OF ASSETS

Other than as disclosed in note 32, as at 31st December, 2006, bank deposits amounting to HK$6,692,000 (2005: HK$6,687,000) of the Group were pledged to banks for the purpose of satisfying the terms and conditions of certain construction contracts entered into by the Group. In addition, prepaid lease payment on land use rights and building with a carrying value of HK$7,081,000 were pledged to secure the banking facilities granted to the Group.

49. CONTINGENT LIABILITIES

	2006	2005
	HK$'000	*HK$'000*
Guarantees/counter indemnities given in respect of outstanding tender/performance/retention bonds for construction contracts	**66,868**	105,793

50. MAJOR NON-CASH TRANSACTION

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

51. RETIREMENT BENEFITS SCHEME

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

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

In addition to the mandatory contributions specified under the MPF Schemes Ordinance, the Group 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 employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government. The subsidiaries are required to contribute a fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligations of the Group with respect to the retirement scheme is to make the specified contributions.

The amount charged to the consolidated income statement of HK$9,797,000 (2005: HK$9,477,000) represents the aggregate retirement benefit scheme contributions for the Group's employees, net of forfeited contributions.

52. STAFF SHARE PURCHASING SCHEME

On 15th March, 2004, the Company adopted the staff share purchasing scheme (the "Staff Share Purchasing Scheme"). Pursuant to which the Company through its wholly owned subsidiary might grant the purchase rights (the "Purchase Rights") to the eligible participants (the "Eligible Participants") being any employee, executive or officer of the members of the Group and Kaden, a subsidiary of the Group (formerly an associate of the Group), to purchase shares in the share capital of Build King ("Build King Shares") at the purchase price of HK$0.006 per share from the Company subject to the completion (the "Completion") of the restructuring proposal of Build King.

The purpose of the Staff Share Purchasing Scheme was to provide incentive to employees, executives or officers of the members of the Group and Kaden whose contributions would be of paramount importance to the success of the Company, Build King and their subsidiaries as a result of their efforts after the Completion. The principal terms of the Staff Share Purchasing Scheme were disclosed in the Company's announcement dated 15th March, 2004.

Upon the Completion on 23rd April, 2004, the Purchase Rights for the acquisition of an aggregate of 1,063,160,000 Build King Shares, of which 705,320,000 Build King Shares granted to the directors of the members of the Group and 357,840,000 Build King Shares granted to other Eligible Participants, had been granted by the Company for an aggregate consideration of HK$430.

At the special general meeting of Build King held on 23rd July, 2004, approval had been obtained from the shareholders of Build King in respect of share consolidation (on the basis that every ten shares of HK$0.01 each in the issued and unissued share capital of Build King were consolidated into one share of HK$0.10 each ("New Build King Shares")). Accordingly, the Purchase Rights for the acquisition of the shares in Build King had been adjusted from 1,063,160,000 Build King Shares at the purchase price of HK$0.006 per share to 106,316,000 New Build King Shares at the purchase price of HK$0.06 per share.

During the year ended 31st December, 2006, 41,334,000 (2005: 38,116,000) New Build King Shares were delivered to the Eligible Participants. Since then, no Purchase Rights granted under the Staff Share Purchasing Scheme remained outstanding.

The above scheme is exempted from HKFRS 2 as all the Purchase Rights had been granted and vested before 1st January, 2005.

53. RELATED PARTY TRANSACTIONS

During the year, the Group has the following transactions with related parties:

	Associates		Jointly controlled entities	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Value of construction work certified	—	13,582	—	—
Consultancy fee paid	—	11,313	—	—
Management services income	—	—	—	4,487
Secretarial and management service income	**850**	850	—	—

The amounts due from/to related parties are set out in the consolidated balance sheet and respective notes.

Compensation of key management personnel

	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**17,787**	17,878
Post-employment benefits	**1,043**	954
	18,830	18,832

The emoluments of directors and senior management are determined by the Remuneration Committee with reference to salaries paid by comparable companies, time commitment, and responsibilities of the directors and senior management, employment conditions, and prevailing market conditions.

54. PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital *	Proportion of nominal value of issued capital/ attributable interest held by the Group %	Principal activities
Build King Holdings Limited *(note a)*	Bermuda	HK$78,140,849	54.06	Investment holding, engaged in civil engineering
Hubei Nature's Favour Biotechnology Company Limited *(note d)*	PRC	RMB17,500,000 *	91	Bio-technology
Hsin Lung Construction Company Limited	Taiwan	NTD175,000,000	54.06	Civil engineering
Kaden Construction Limited	United Kingdom/ Hong Kong	GBP6,500,000	53.44	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	HK$25,200,000 Ordinary shares	54.06	Civil engineering
		HK$24,000,000 Non-voting deferred shares	54.06	
Leader Marine Contractors Limited	Hong Kong	HK$200,000	54.06	Marine engineering and provision of transportation services
Leader Marine L.L.C.	Sharjah, United Arab Emirates	Dh300,000	54.06	Ships and boats rental and shipping services
Shengsi Dayangshan Quarry Co., Ltd. *(note c)*	PRC	US$5,100,000 *	100	Production of construction materials
Wai Hing Quarries (China) Limited	Hong Kong	HK$2 Ordinary shares	100	Production of construction materials
		HK$1,200,000 Non-voting deferred shares	100	

54. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital *	Proportion of nominal value of issued capital/ attributable interest held by the Group %	Principal activities
Wai Kee Biotechnical Company Limited	British Virgin Islands	US$1	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	HK$10,000,000	54.06	Civil engineering
Wai Kee Quarry Asia Limited	Hong Kong	HK$2	100	Investment holding
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	HK$2 Ordinary shares	54.06	Civil engineering
		HK$14,800,000 Non-voting deferred shares	54.06	
		HK$5,200,000 Non-voting deferred shares *(note b)*	—	
Wai Kee (Zens) Holding Limited	British Virgin Islands	US$50,000	100	Investment holding
Wuhan Nature's Favour Bioengineering Company Limited *(note d)*	PRC	RMB20,000,000 *	91	Bio-technology
Wuxi Qianhui Sewage Treatment Co., Ltd. *(note d)*	PRC	US$5,400,000	51.68	Sewage treatment
Zhuhai Guishan Seawall Construction Company *(note d)*	PRC	HK$21,000,000 *	80	Seawall construction and production of construction materials
惠記環保工程(上海)有限公司 *(note c)*	PRC	US$800,000	54.06	Environmental engineering

54. PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) The company's shares are listed on the Main Board of the Stock Exchange.

(b) 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 such company. On winding up, the holders of the deferred shares are entitled to a distribution out of the remaining assets of such company only after the distribution of substantial amounts as specified in the Articles of Associations to holders of ordinary shares of such company.

(c) The company is a foreign owned enterprise registered in the PRC.

(d) The companies are co-operative joint ventures registered in the PRC.

Except for Wai Kee (Zens) Holding 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 constituted 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.

55. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Investment in subsidiaries	**123,915**	123,915
Amounts due from subsidiaries	**1,878,207**	1,789,614
Other current assets	**5,212**	5,794
Amounts due to subsidiaries	**(571,145)**	(477,143)
Other current liabilities	**(30,306)**	(16,578)
Bank loans	**(127,650)**	(11,000)
	1,278,233	1,414,602
Share capital	**79,312**	79,312
Reserves	**1,198,921**	1,335,290
	1,278,233	1,414,602