BuildKing

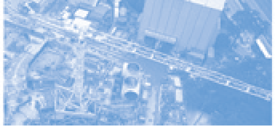
Build King Holdings Limited

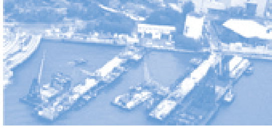
(Incorporated in Bermuda with limited liability)
Stock Code : 00240

Annual Report 2012

Build with

Professionalism
Innovation
Integrity





Contents

Financial Highlights

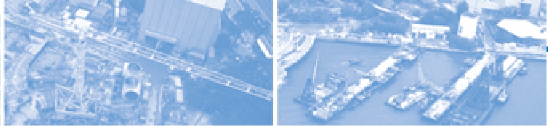
FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity* per share	8%
Equity	HK$276 million
Equity per share	HK22 cents
Group revenue and share of revenue of jointly controlled entities	HK$2,143 million
Profit attributable to owners of the Company	HK$21 million

* equity refers to equity attributable to owners of the Company

FINAL DIVIDEND

The board of directors (the "Board") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2012.



Chairman's Letter

The Group's gain in equity during 2012 was HK$21 million whilst the equity per share increased by 8% to HK22 cents.

As expected, the turnover increased to HK$2.1 billion but the operation result was poor, with construction profit only HK$5 million, well below the industry norm. We definitely need to do a lot better in 2013.

We were hit by two major projects both of which have produced unsatisfactory results. On a project in Wan Chai for the Hong Kong Government there was an adverse cost difference of over HK$40 million, whilst on a joint venture project for the MTRC, the latest forecast bottom line indicates a reduction of HK$17 million (for our share). Also, the situation in UAE has not improved but I will come to that later.

However, our Wuxi plant in China has been running smoothly and registered a healthy profit for the year, despite the fact that our application to raise the levy was turned down by Government. Last year's equity market produced positive results for all investors and our investment gain was HK$15 million which was quite unexpected.

Our order book has risen from last year's HK$5.4 billion to HK$7.0 billion and I expect this to rise further in the coming year. Based on the contracts on hand together with tenders in view, we should achieve a turnover of HK$3.0 billion this year, if not, a figure very close to this. Naturally, what our shareholders are looking for is not the increase in turnover but the bottom line – that is what really matters. I am conscious about this and my sincere apologies for failing you in this critical area. I will do everything possible to ensure 2013 will be much better.

BUSINESS ANALYSIS

Construction

The core business of our Group is construction which represented 99% of our turnover, of which 99% was carried out in Hong Kong.

Most of our projects are in reasonably good shape and proceeding within budget and on time. But it only takes one or two poor projects to adversely affect the overall result. As mentioned above the reason for the poor performance is primarily due to the two projects. We encountered unexpected difficulties and delays on our Wan Chai project with the precast work in China, and hence we suffered substantial delay and cost overrun. On the MTRC project unforeseen difficulties, particularly in shaft sinking including excessive ground water, have caused significant delay and cost overruns.

In addition and on a more general note, this years performance has also been adversely affected by the increasing cost of labour, staff and subcontractors; the pace of such increases has still not eased. As such, we have struggled to contain construction costs effectively even on those sites where we have cost fluctuation payments which in general have only offered partial protection.

BUSINESS ANALYSIS (Continued)

Construction (Continued)

Perhaps due to the current very heavy workload, our site management have also tended to focus on how to finish the projects on time and with satisfactory quality, and we notice that on several sites there is a lack of budget and cost awareness as well as commercial understanding among staff. Too often such matters are left for our quantity surveyors to handle. Our senior management have been strongly encouraged to involve the staff on site to make them more accountable for their own decisions. At the same time, we will ensure they will take responsibility for overall site control, not only the production side but also the cost and commercial aspects of a project. Naturally from time to time mistakes will be made with this approach, but I believe staff will really learn and grow with such involvement. With proper supervision and also training, I am sure this will produce a much better long term results. It will also enable senior management to more easily identify candidates for further development and help to ensure the long term management succession.

This year has seen an exceptionally heavy workload on tendering and our increased order book demonstrates success. Given the continued positive construction market outlook and our current workload on hand, we will be very prudent and selective on future tenders and will try our very best to reduce our exposure to fixed price contracts.

The turnover of our Building Division was HK$428 million, an increase of 83% over the year before. Regrettably our Director of the Building Division, Mr. HP Choy, left us in the later part of the year, which to me was a great set back. However, we have now recruited Mr. Francis Tsang who joined us this February to take up this position. I am sure with Francis on board, we will continue our approach of obtaining a steady growth both in turnover and profit for our Building Division.

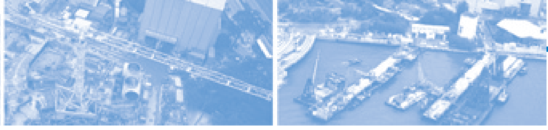
On the civil engineering side, with all the mega projects being rolled out, plus the future third runway, we expect the infrastructure market will be booming for the next 7 or 8 years and we are optimistic of our future.

I have mentioned over the last two years five areas which we will focus on. I am happy to report that:

1) Track record – We have been successful in securing several mega projects in joint venture which will close the gap between ourselves and the 'tier one' contractors. This will enhance our competitiveness in the future.

2) Our performance on safety, environment and quality has remained very good, and we continue to remain as one of the top performers in this industry. This is a joint effort by all our staff and to be commended.

3) Our engineering team is getting stronger by the day and we can now confidently say that we are on a par with international contractors and have an edge over most local contractors. During the year, the team has been heavily engaged in supporting our tendering but during 2013, its services will be directed more at assisting current projects.



Chairman's Letter

BUSINESS ANALYSIS (Continued)

Construction (Continued)

4) I regret that we have failed to carry out the survey on staff satisfaction I mentioned last year. However, our staff turnover for the year has been very low and bearing in mind the current huge market pressure for staff, particularly on the civil engineering side, I believe that staff satisfaction is quite good. We have been very aware of market demands and have carried out two salary increases during the year.

5) On the subject of partnering with suppliers and subcontractors, although I can't say we are now the preferred partner in all cases, it is clear we are preferred by many as demonstrated by those who have been with us for a long time and who tend to stick with us.

In short, we have achieved most of the targets we set out to attain few years ago and in my next report to you I will update you on how effective we are at introducing cost control at site.

Last year we pulled out from the UAE leaving only a skeleton staff. All our marine equipment is now deployed back here in Hong Kong. Unfortunately, there is still one project where although the physical work is complete, there are still disagreements on the final account as well as some other liabilities. This will take time to resolve and the economic conditions over there surely do not help. There will still be minor costs to be incurred during this year.

I am happy to report that Mr. Wu Siu Ho has joined us as Director in charge of new business. I am confident that under his leadership, we will be able to develop new business areas for the group and provide new income streams. I hope I can report some real progress in this area next year.

Environmental Infrastructure Project

As mentioned above, we were not able to raise the levy at our Wuxi Sewage Treatment plant in China in 2012. We will keep trying in 2013 but given the attitude of the Government, this will be an uphill battle.

The good news is we were able to keep the cost under control and produced a better than expected result in 2012. The average tonnage treated has now increased to around 35,000 ton/day – close to the design treatment capacity. We are therefore in the process of increasing the capacity to the final stage of 50,000 ton/day, and this upgrading should be completed before first half of 2013.

We have strengthened our marketing ability in the year by employing new staff with the aim of identifying and hopefully securing further similar projects in China. I hope I can report positive news next year.

Investment

We did not make any new investments during this year. As reported last time, we need to retain all our working capital for our increased core activities.

The equity market was surprising good and we registered a gain of 50% and HK$15 million this year. I do not have a view as to how the equities we hold are likely to perform next year, except that in the long run they will be solid investments. We have no intention to make any significant changes in our portfolio in the coming year.

Chairman's Letter

CORPORATE GOVERNANCE

Communication with Shareholders

I will be candid with you in my reporting and I will emphasize the pluses as well as minuses that are important in appraising the Group. My guideline is to tell you the business facts that I would want to know if our positions were reversed; I owe you nothing less. There may be some queries or issues which you wish to raise and so I strongly encourage shareholders to attend the AGM. This is the occasion where the management and owners of the company can discuss business face to face.

Dividend Policy

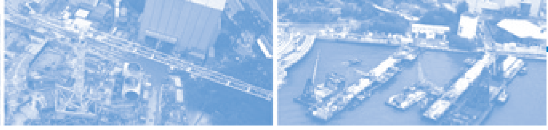
Unfortunately our equity is still falling short of the HK$300 million figure I have mentioned before. However, barring the unexpected, I am hopeful that we shall be in a position to declare a small dividend next year. I am sorry for the long wait.

Appreciation

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

Zen Wei Peu, Derek
Chairman

1 March 2013



Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Operating Results

Following the significant increase of contracts awarded in 2010 and 2011, the turnover for 2012, including our share of jointly controlled entities, climbed up to HK$2,143 million, representing an increase of 24% from HK$1,731 million for 2011. However, the profit after tax dropped from HK$27 million for 2011 to HK$20 million this year.

The profit for 2012 was made up of HK$5 million from construction (2011: HK$37 million profit) and HK$15 million from the investments in marketable securities (2011: HK$10 million loss). The decline of profit from construction was attributable partly to our strategic decision to retreat from UAE market and relocate plants and staff back to Hong Kong where we believe the prospect of marine projects are much promising. The profit from construction was also eroded by few projects where the costs were over-spent as a result of clients' changes and variations. However, we are optimistic to recover our contractual entitlement to these costs from the clients in following years.

During the year, the Group successfully secured ten projects of total contract sum over HK$3 billion and after year end one major civil project of HK$1.7 billion. As at the date of this report, outstanding value of works is HK$7 billion.

Hong Kong Operation

2012 was a busy year with many successful tenders. In early 2012, we secured a foundation work for a major logistic centre on Tsing Yi Island which is now close to completion as budget. The marine division won a dredging contract for laying an undersea gas main, part of Hong Kong Section of West-East Natural Gas Transmission Project and have completed on time with compliment from the client. Further, we successfully bided the first New Engineering Contract for Highways Department to carry out improvement work at Pok Oi Interchange. The practical experience with this new form of contract is strategically important to enhance our competitiveness in future public works as we expect this new form of contract will be widely adopted for future government projects.

Many major infrastructure projects from Hong Kong Government and MTRC were pushed out for tenders. Our efforts and investment in these mega tenders were also fruitful. Through joint ventures with other major contractors, we won two work packages for Shatin Central Link, including Diamond Hill Station Extension and Hung Hom North Approach Tunnels. Both projects were awarded and commenced in December 2012 and target to complete within five years. In January 2013, we secured, through a 49% owned joint venture, a significant contract of a sum over HK$3.3 billion for land formation and construction of Central Wanchai Bypass at Wanchai West which takes over five years to complete.

The joint venture projects secured in previous years are progressing into mature stage. The Central Wanchai Bypass, Package C1, at the Hong Kong and Convention Centre has made significant progress and overall program and budget were well under control. The tunneling work of Express Rail Link Contract 824 was ongoing; plans to recover earlier delays in time and their associated costs were developed and agreed with the client. For South Island Line (East) Contract 901 at Admiralty Station, the critical part – excavation and blasting works for the shaft was commenced in November 2012. Portion C4 of Central Wanchai Bypass over existing MTR Tsuen Wan Line was approaching completion; the precast tunnel unit was constructed in PRC and towing back to Hong Kong is imminent. The contract for a new twin cross harbour gas mains for the Hong Kong and China Gas Company Limited started off late 2011 and now, pipe laying work are progressing smoothly.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT (Continued)

Hong Kong Operation (Continued)

On solo projects, the Polar Adventure and Thrill Mountain project for Ocean Park was completed early 2012 on time for opening to public. The third hangar at the Business Aviation Center at Chek Lap Kok Airport was constructed within 12 months to a very tight programme and handed over to the client in June 2012. The construction of two sewage treatment plants on Lamma Island for Drainage Services Department (DSD) and infrastructure work for Kai Tak Development for Civil Engineering and Development Department (CEDD) are both at an advanced stage with time and costs in line with budget. The government projects awarded in 2011 include the reconstruction, improvement and rehabilitation of Kai Tak River in Wong Tai Sin for DSD and two work packages for the Harbour Area Treatment Scheme, Stage 2A, both also for DSD together with upgrading work for the promenades of Aberdeen Harbour for CEDD; all these projects are proceeding smoothly within budget.

On building projects, we are pleased to report our success in meeting the tight programme of Hang Seng Management College at Shatin, handing over the first block before the opening of new academic year in September 2012. We are now progressing well to the remaining blocks which are to be completed in 2014. The improvement work at Lai Chi Kok swimming pool and the high rise residential building in Tsing Yi were also completed on time within budget. During the year, we won two building contracts, namely a disciplined services quarter in Tuen Mun for Architectural Services Department (ASD) and a hostel for The Hong Kong University of Science & Technology in Tseung Kwan O. Both contracts will run for about two and half years with completion in early 2015.

Looking forward, we anticipate many civil engineering infrastructure projects are in pipe line; this momentum will continue for five to ten years. With strong and solid foundation laid in past 30 years in Hong Kong, the Group is well positioned to reap the benefit of future opportunities. However, market share and turnover are not our primary objectives; our focuses are always quality of the works as well as profit attributable to shareholders. Mindful of the risks and challenges in this ever-changing business environment, we continue to adopt cautious tender approach – selective of those projects we have edges and with reasonable profit and cash flow; we will reinforce cost control measures to ensure achievement of budget.

The development of building division is an important part of the long range plan. We successfully upgraded our listing in Group C – Building under Development Bureau from probationary to confirmed status in 2009. Since then, we have significantly strengthened the capabilities of the building division, which in the past few years undertook wide range of building projects including high rise residential towers for private developers, buildings for universities and ASD, and fast track fit out works for luxury brand shop. The recent change of the government policy to reinvigorate public housing may also provide us with opportunities to further development. The Group is now seriously formulating strategies to develop this public housing sector.

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT (Continued)

PRC

Since the commencement of sewage treatment operation in Wuxi in 2007, it has consistently met its operational and financial target, contributing steady income to the Group. During 2012, the turnover increased by 13% to HK$18 million and coupled with cost savings measures implemented, the profit was doubled to over HK$9 million.

The treatment volume of sewage at Wuxi has now reached the maximum designed capacity of 35,000 tonnes per day. With the forecasted steady growth of local population and industrial customers, the Group has decided to further invest RMB5 million in new equipment, upgrading the maximum designed capacity to 50,000 tonnes per day. The new plant will be ready for operation in the second half of 2013.

Employees and Remuneration Policies

As at 31 December 2012, the Group had a total of 915 employees and total remuneration for the year ended 31 December 2012 was approximately HK$228 million. Competitive remuneration packages are structured for each employee commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as performance of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2012, the Group had liquid assets of HK$96 million (as at 31 December 2011: HK$121 million) comprising held-for-trading investments of HK$41 million (as at 31 December 2011: HK$30 million) and bank balances and cash of HK$55 million (as at 31 December 2011: HK$91 million).

As at 31 December 2012, the Group had a total of interest bearing borrowings of HK$74 million (as at 31 December 2011: HK$30 million) with following maturity profile:

	At 31 December 2012 HK$ million	At 31 December 2011 HK$ million
Borrowings due within one year	**74**	16
Borrowings due in the second year	**–**	14
	74	30

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

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Capital Structure and Gearing

As at 31 December 2012, total equity was HK$292 million comprising ordinary share capital of HK$124 million, reserves of HK$152 million and non-controlling interests of HK$16 million.

As at 31 December 2012, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 25% (as at 31 December 2011: 11%).

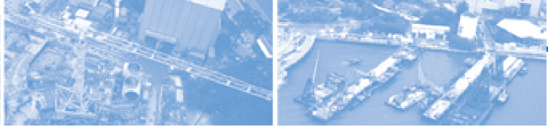
Pledge of Assets

As at 31 December 2012, bank deposit of the Group amounting to HK$10,000 (as at 31 December 2011: HK$21,000) was pledged to a bank for securing the banking facility granted to the Group.

As at 31 December 2012, certain equity securities with market value of HK$20 million (as at 31 December 2011: HK$13 million) were pledged to a bank to secure general banking facilities granted to the Group.

Contingent Liabilities

	As at 31 December 2012 HK$ million	As at 31 December 2011 HK$ million
Outstanding tender/performance/retention bonds in respect of construction contracts	**243**	152



Directors and Senior Management

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, age 60, has been the Chairman of the Company since 23 April 2004 and has been appointed as a member of the Remuneration Committee of the Company since 1 April 2005 and a member of the Nomination Committee of the Company since 27 February 2012. He is also the Vice Chairman of Wai Kee Holdings Limited ("Wai Kee") and an Executive Director of Road King Infrastructure Limited ("Road King"), the shares of both are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). He was once the Chairman of Chai-Na-Ta Corp., up to his resignation in September 2012. Mr. Zen holds a Bachelor of Science degree in Engineering from The University of Hong Kong and a Master Degree in Business Administration from The Chinese University of Hong Kong. He is a member of the Institution of Civil Engineers and The Hong Kong Institution of Engineers and a fellow member of the Institution of Quarrying, the United Kingdom ("UK"). He is also the Honorary Treasurer of Hong Kong Construction Association from 2011 to 2013. He has over 35 years of experience in civil engineering.

CHANG Kam Chuen, Desmond, age 47, has been appointed as an Executive Director of the Company since 1 June 2008. He has been appointed as the Company Secretary of the Company since 31 May 2005. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of Chartered Institute of Management Accountants, UK. He has over 20 years of experience in accounting profession and financial management. Mr. Chang is responsible for the financial, human resources, administration and secretarial departments of the Group.

NON-EXECUTIVE DIRECTORS

David Howard GEM, age 72, has been appointed as a Non-executive Director of the Company since 9 August 2004. He had been a member of the Audit Committee of the Company since 29 July 2005 and resigned on 12 January 2011. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also a member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 45 years of experience with contractors in the management, design and construction of a wide variety of civil engineering and building projects in UK, Asia and Hong Kong. He was a past Vice President of The Hong Kong Construction Association and Chairman of The Civil Engineering Committee. He was also a past Chairman of the Civil Engineering Division of The Hong Kong Institution of Engineers and a past member of the Construction Advisory Board to the Hong Kong Government.

CHENG Chi Pang, Leslie, age 55, has been appointed as a Non-executive Director of the Company since 9 August 2004 and has been appointed as a Non-executive Director of Wai Kee since September 2000. Dr. Cheng holds a Bachelor Degree in Business, a Master Degree in Business Administration, a Master Degree of Laws (Chinese and Comparative Law) and a Doctorate Degree of Philosophy in Business Management. Dr. Cheng is an associate member of The Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practicing Accountants, the Taxation Institute of Hong Kong and a fellow member of Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has over 30 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was Group Financial Controller and Chief Executive of NWS Holdings Limited. He is now the Senior Partner of Leslie Cheng & Co., the Chief Executive Officer of L & E Consultants Limited and an Independent Non-executive Director of China Ting Group Holdings Limited, Fortune Sun (China) Holdings Limited, Nine Dragons Paper (Holdings) Limited and Tianjin Port Development Holdings Limited, the shares of these four companies are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of an international accounting firm.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS (Continued)

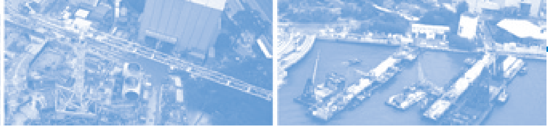
CHAN Chi Hung, Anthony, age 39, has been appointed as a Non-executive Director of the Company since 4 December 2008. He holds a Bachelor of Science Degree with major in Economics with University of Minnesota, and is an alumni of Stanford Graduate School of Business with a certificate of Stanford Executive Program. He was the Managing Director of a leading foreign-owned leasing company in the PRC. His expertise includes structuring of leveraged leasing and cross-broader leasing for overseas-listed State-owned Enterprises. Before his active participation in the financial leasing industry, Mr. Chan was previously the Investment Manager of Springfield Financial Adv. Ltd. in charge of its private equity, fund-of-funds and fixed income investment portfolios. Prior to that, he was with J.P. Morgan Chase. He is an Executive Director of China Financial Leasing Group Limited, the shares of which are listed on the Main Board on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOW Ming Kuen, Joseph, OBE, JP, age 71, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company, both since 23 April 2004. He has also been appointed as the Chairman of the Remuneration Committee of the Company since 16 February 2005 and a member of the Nomination Committee of the Company since 27 February 2012. He is a professional civil and structural engineer. He is also a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is the Chairman of Joseph Chow and Partners Limited, a professional consulting engineers firm. Dr. Chow served as President of The Hong Kong Institution of Engineers from 2001 to 2002 and Chairman of the Hong Kong Engineers' Registration Board from 1996 to 1998. Dr. Chow is an Hon Senior Superintendent of the Auxiliary Police Force. He served in many public services including Chairman of the Hong Kong Examinations Authority, Chairman of the Construction Workers Registration Authority, a member of Hospital Authority, Hong Kong Housing Authority and Hong Kong University Court. He is also an Independent Non-executive Director of Chevalier International Holdings Limited, Harbour Centre Development Limited and Road King, the shares of these three companies are listed on the Main Board of the Stock Exchange. Dr. Chow was once the Independent Non-executive Chairman of PYI Corporation Limited, the shares of which are listed on the Main Board of the Stock Exchange.

NG Chi Ming, James, age 69, has been appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company, both since 23 April 2004. He has been appointed as a member of the Remuneration Committee of the Company since 16 February 2005 and a member of the Nomination Committee of the Company since 27 February 2012. He has over 30 years of experience in the banking industry in Hong Kong and the United States. He is an Independent Non-executive Director of iOne Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He was a Director and the Chief Executive Officer of ENM Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He was the Chief Executive Officer of First Pacific Bank in Hong Kong and the Chief Executive Officer of United Savings Bank in California. He was also the former Chairman of the Employers' Federation of Hong Kong.

HO Tai Wai, David, age 64, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company since 8 September 2004. He has been appointed as a member of the Remuneration Committee of the Company since 16 February 2005 and the Chairman of the Nomination Committee of the Company since 27 February 2012. Mr. Ho has over 40 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of UK, The Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Ho holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is also an Independent Non-executive Director of Cinderella Media Group Limited (formerly known as Recruit Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange.



Directors and Senior Management

SENIOR MANAGEMENT

CHEUNG Siu Lun, age 62, is responsible for the Group's business development. He is a Director of Kaden Construction Limited ("Kaden"), Leader Civil Engineering Corporation Limited ("Leader Civil") and Wai Kee (Zens) Construction & Transportation Company Limited ("WKC&T"). He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong. He is a member of the Institution of Civil Engineers and a fellow of The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK. He is a member of the Contractors Registration Committee Panel, the Contractors Registration Committee, the Minor Works Contractors Registration Committee Panel and the Minor Works Contractors Registration Committee of Buildings Department, and the Faculty Advisory Committee of the Faculty of Science and Technology of the Technological and Higher Education Institute of Hong Kong. He has over 35 years of experience in both civil engineering and building construction.

KWOK Chi Ko, Enmale, age 56, is responsible for the Group's contract administration and commercial management for all building and construction related businesses. He is a Director of Kaden, Leader Civil and WKC&T. He holds an Engineering Doctorate Degree, a Master Degree in Arbitration & Dispute Resolution and a Master Degree in Laws. He is a Chartered Quantity Surveyor, a Registered Professional Surveyor (QS) and an Accredited Mediator and has been a Fellow Member of the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators. He has had over 30 years of experience in building and construction industry.

LIU Sing Pang, Simon, age 51, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director and the General Manager of Kaden, as well as a Director of Leader Civil and WKC&T. He is a member of the Institution of Structural Engineers and a member of the Hong Kong Institution of Engineer. He is also a Chartered Engineer of UK. He is a member of Appeal Tribunal, Buildings Ordinance and the Committee on Technologist Training of Vocational Training Council. He has over 25 years of experience in civil engineering and building construction.

LUI Yau Chun, Paul, age 51, is responsible for the Group's civil and marine engineering operation in Hong Kong. He is a Director and the General Manager (Marine) of WKC&T, a Director of Kaden, Leader Civil and Leader Marine Contractors Limited, and the General Manager of Leader Marine L.L.C. and Leader Marine Cont. L.L.C., both companies were registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers. He has over 25 years of experience in civil and marine engineering.

SO Yiu Wing, Wilfred, age 38, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of Kaden, Leader Civil and WKC&T. He holds a Bachelor degree in Civil Engineering from The University of Hong Kong. He is a member of The Hong Kong Institution of Engineers and a Registered Professional Engineer (CVL). He has over 15 years of experience in civil engineering construction.

TSANG Wing Ho, Francis, age 55, is responsible for the Group's building operation. He was appointed as a Director of Kaden and Leader Civil in February 2013. He holds a Bachelor of Science degree in Civil Engineering from The City University, UK and a Master degree in General Business Administration from The University of Hull, UK. He is a member of The Institution of Civil Engineers and The Hong Kong Institution of Engineers. He has over 30 years of experience in the construction industry including construction supervision, design and project management.

WU Siu Ho, age 60, is responsible for the Group's new business development. He was appointed as a Director of Kaden and Leader Civil in November 2012. He holds a Bachelor of Science Degree in Engineering from The University of Hong Kong. He has over 35 years of extensive experience in management of engineering companies. He is a member of The Institution of Mechanical Engineers and The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK.

YUE Pak Lim, age 76, is a Project Director of the Group. The civil engineering construction contracts he is currently managing are Wan Chai Development Phase II – Central–Wan Chai Bypass and MTR Contract No. 1111 Hung Hom North Approach Tunnels. He is a Director of Kaden and Leader Civil. He has over 50 years of extensive experience in management and construction of a wide variety of civil engineering and building projects in Hong Kong. Prior to joining the Group, he had been a Director of several sizeable construction companies in Hong Kong. He was once an Executive Director of Wai Kee.

Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 43 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the five largest customers of the Group together accounted for approximately 84% of the Group's turnover, with the largest customer accounted for approximately 48%, and the five largest suppliers of the Group together represented less than 21% by value of the Group's total purchases.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 38 and 39 respectively.

The Board does not recommend the payment of dividend for the year ended 31 December 2012 (31 December 2011: nil).

SEGMENTAL INFORMATION

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

RESERVES

Details of movement in the reserves of the Group for the year is set out in the consolidated statement of changes in equity on page 42.

DISTRIBUTABLE RESERVES

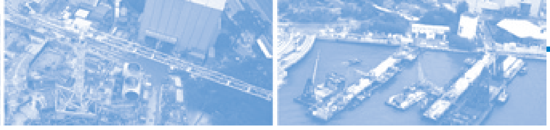
There were no distributable reserves available for distribution to the Shareholders as at 31 December 2011 and 2012.

FINANCIAL SUMMARY

A summary of the results and of financial position of the Group for the past five financial years is set out on page 95.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.



Directors' Report

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2012 are set out in note 28 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in notes 29 and 30 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the Company's pension schemes are set out in note 40 to the consolidated financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Zen Wei Peu, Derek *(Chairman, Chief Executive Officer & Managing Director)*
Chang Kam Chuen, Desmond

Non-executive Directors

David Howard Gem
Cheng Chi Pang, Leslie
Chan Chi Hung, Anthony

Independent Non-executive Directors

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

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

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. David Howard Gem, Mr. Chan Chi Hung, Anthony and Mr. Ho Tai Wai, David shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

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

The Company has received from each Independent Non-executive Director an annual confirmation of his independence during the year ended 31 December 2012 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. The Company considers all the Independent Non-executive Directors to be independent.

Directors' Report

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS

As at 31 December 2012, the interests (including short positions) of the directors (the "Directors") and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carried voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, were as follows:

(I) The Company

Interests in Shares

Name of Director	Capacity/ Nature of interest	Number of Shares held Long Position (Note)	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Personal	115,245,228	–	9.28
Chang Kam Chuen, Desmond	Personal	1,000,000	–	0.08
David Howard Gem	Personal	500,000	–	0.04
Cheng Chi Pang, Leslie	Personal	1,170,000	–	0.09

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

DIRECTORS' INTERESTS (Continued)

(II) Associated Corporations

Interests in Shares

Name of Director	Name of company	Capacity/ Nature of interest	Number of Shares held Long Position (Note)	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Wai Kee Holdings Limited ("Wai Kee")	Personal	185,557,078	–	23.40
	Wai Kee (Zens) Construction & Transportation Company Limited	Personal	2,000,000	–	10.00
	Wai Luen Stone Products Limited	Personal	30,000	–	37.50

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

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

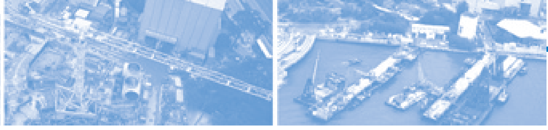
COMPETING INTEREST

During the year, no Director was interested in the business which competes or was likely to compete either directly or indirectly, with the business of the Group as required to be disclosed under the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Number of Shares held and percentage of shareholding			
		Long position (Note 1)		**Short position**	
Name of substantial Shareholder	**Capacity/Nature of interest**	**Number of Shares**	**%**	**Number of Shares**	**%**
Top Horizon Holdings Limited ("Top Horizon") (Note 2)	Personal/Beneficiary	635,415,033	51.17	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note 3)	Corporate	635,415,033	51.17	–	–
Wai Kee (Note 4)	Corporate	635,415,033	51.17	–	–
Vast Earn Group Limited (Note 5)	Personal/Beneficiary	67,404,052	5.43	–	–
NWS Service Management Limited (incorporated in the British Virgin Islands) (Note 6)	Corporate	67,404,052	5.43	–	–
NWS Service Management Limited (incorporated in the Cayman Islands) (Note 7)	Corporate	67,404,052	5.43	–	–
NWS Holdings Limited (Note 8)	Corporate	67,404,052	5.43	–	–
New World Development Company Limited (Note 9)	Corporate	67,404,052	5.43	–	–
Chow Tai Fook Enterprises Limited (Note 10)	Corporate	67,404,052	5.43	–	–
Chow Tai Fook (Holding) Limited (Note 11)	Corporate	67,404,052	5.43	–	–
Chow Tai Fook Capital Limited (Note 12)	Corporate	67,404,052	5.43	–	–
Cheng Yu Tung Family (Holdings II) Limited (Note 13)	Corporate	67,404,052	5.43	–	–
Cheng Yu Tung Family (Holdings) Limited (Note 14)	Corporate	67,404,052	5.43	–	–



SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

1. Long position in the Shares

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

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

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

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

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

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

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

9. New World Development Company Limited is deemed to be interested in the Shares through its interests in its subsidiary, namely NWS Holdings Limited.

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

11. Chow Tai Fook (Holding) Limited is deemed to be interested in the Shares through its interests in its wholly owned subsidiary, namely Chow Tai Fook Enterprises Limited.

12. Chow Tai Fook Capital Limited is deemed to be interested in the Shares through its interests in its subsidiary, namely Chow Tai Fook (Holding) Limited.

13. Cheng Yu Tung Family (Holdings II) Limited is deemed to be interested in the Shares through its interests in more than one-third of the issued share capital of Chow Tai Fook Capital Limited.

14. Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in the Shares through its interests in more than one-third of the issued share capital of Chow Tai Fook Capital Limited.

Save as disclosed above, as at 31 December 2012, no other person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

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

On 21 June 2012, the Company, through its subsidiary, entered into a consultancy agreement (the "Consultancy Agreement") with Gateway (wholly owned by Mr. David Howard Gem). Pursuant to the Consultancy Agreement, the Group agreed to engage Gateway through Mr. Gem to provide consultancy services on normal commercial terms for two years commencing on 1 June 2012 at a consultancy fee (exclusive of travelling and accommodation expenses) of HK$36,000 per month. Subject to the Company's financial performance, the subsidiary may pay a discretionary fee not exceeding HK$10,000 per month to Gateway. If Mr. Gem is requested by the subsidiary to visit countries outside the United Kingdom for more than one week, the charge payable to Gateway per additional week is HK$90,000. The fees to be paid under the Consultancy Agreement for each of the financial years ending 31 December 2012, 2013 and 2014 of the Company is subject to an annual cap amount of HK$800,000, HK$1,500,000 and HK$700,000 respectively.

During the period from 1 June 2012 to 31 December 2012, the fee paid was HK$612,000.

(2) Framework Agreement with Wai Kee

On 8 July 2011, the Company entered into the Framework Agreement with Wai Kee, which is a connected person of the Company by virtue of its being a substantial shareholder of the Company, for the purchase of ready mixed concrete ("Concrete") from time to time for a period from 1 June 2011 to 31 December 2013, subject to the terms and conditions of the Framework Agreement. The maximum aggregate value of the contract sum in respect of the purchase of Concrete by the Company and its subsidiaries (collectively the "Group") from Wai Kee for the periods concerned under the Framework Agreement are subject to annual caps and shall not exceed the amounts set out below.

Period	Total value not exceeding
1 June 2011 – 31 December 2011	HK$10,000,000
1 January 2012 – 31 December 2012	HK$45,000,000
1 January 2013 – 31 December 2013	HK$55,000,000

During the year, the relevant maximum aggregate value of the contract was HK$36,799,000.

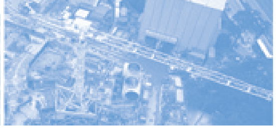
The continuing connected transactions mentioned in (1) and (2) above have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(i) in the ordinary course and usual course of business of the Company;

(ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to (or from) independent third parties;

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and

(iv) within the caps as disclosed in the relevant announcements.




CONNECTED TRANSACTIONS (Continued)

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012.

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

Revolving Loan and Trade Finance Facility of HK$20,000,000

On 11 October 2010, the Company as the borrower executed a facility letter issued by a bank. The bank had agreed to grant the Company a facility comprising revolving loan and trade finance up to an overall limit of HK$20,000,000 (the "Banking Facility I"). The life of the Banking Facility I is not specified and the repayment is on demand and subject to annual review.

For so long as the Banking Facility I is made available to the Company, Wai Kee is required to maintain at least 35% shareholding in the Company. Accordingly, the disclosure is made pursuant to Rules 13.18 and 13.21 of the Listing Rules.

Term Loan Facility of HK$25,000,000

On 16 November 2010, the Company as a guarantor executed a guarantee in favour of a bank. The bank had agreed to grant Leader Civil Engineering Corporation Limited ("Leader Civil", a wholly owned subsidiary of the Company) a term loan facility up to HK$25,000,000 (the "Banking Facility II") which will mature in 30 months from 16 November 2010 being the date of a loan agreement entered into between Leader Civil and the bank.

Throughout the life of the Banking Facility II, Wai Kee is required to maintain at least 50% shareholding in the Company. Accordingly, the disclosure is made pursuant to Rules 13.18 and 13.21 of the Listing Rules.

Save as disclosed above, as at 31 December 2012, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Upon enquiry by the Company, save as disclosed below, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published interim report.

Name of Director	Details of changes
Zen Wei Peu, Derek	His annual salary has been revised from HK$2.35 million to HK$2.50 million with effect from 1 January 2013.
Chang Kam Chuen, Desmond	His annual salary has been revised from HK$1.60 million to HK$1.69 million with effect from 1 January 2013.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$16,000.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the per cent of its public float exceeds 25% for the year ended 31 December 2012 and up to 1 March 2013, the latest practicable date to ascertain such information prior to the issue of this annual report.

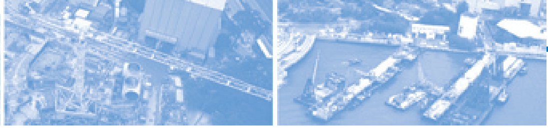
AUDITOR

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

On behalf of the Board

Zen Wei Peu, Derek
Chairman

1 March 2013



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining the highest standard of corporate governance as it believes that good corporate governance practices are fundamental to the effective operation of a company and can enhance shareholders' value as well as safeguard shareholders' interests. The Company places strong emphasis on a quality Board, accountability, sound internal control, appropriate risk-assessment, monitoring procedures and transparency to all shareholders and stakeholders.

Throughout the year of 2012, the Company has complied with the code provisions of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 (collectively the "Code") as set out in Appendix 14 of the Listing Rules except for code provisions of A.2.1, A.4.1 and A.6.7.

In accordance with Code Provision A.2.1, the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The duties of Chief Executive Officer ("CEO") of the Company were previously carried out by the former Vice Chairman and Executive Director. Following his resignation on 15 March 2009, the duties of CEO have been taken up by the Chairman of the Board, Mr. Zen Wei Peu, Derek. In addition to his responsibilities as Chairman overseeing the function of the Board and formulating overall strategies and polices of the Company, Mr. Zen has taken up the management of the Group's business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business. Mr. Zen's title has been re-designated as the Chairman, an Executive Director, Chief Executive Officer and Managing Director of the Company with effect from 22 March 2012.

Code provision A.4.1 relating to the appointment of Non-executive Directors for a specific term, subject to re-election, has been complied with effect from 1 March 2012. Details shall be referred to the section headed "Non-Executive Directors".

In respect of code provision A.6.7, one Non-executive Director did not attend the annual general meeting of the Company held on 15 May 2012 as he had overseas engagement.

Corporate Governance Report

THE BOARD

Composition

The Board has a balanced composition of members to ensure independent judgement being exercised in all discussions. As at the date of this report, the Board comprises eight Directors including two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. Board members are listed below:

Board of Directors

Executive Directors	**Non-executive Directors**	**Independent Non-executive Directors**
Zen Wei Peu, Derek *(Chairman, Chief Executive Officer and Managing Director)*	David Howard Gem	Chow Ming Kuen, Joseph
Chang Kam Chuen, Desmond	Cheng Chi Pang, Leslie	Ng Chi Ming, James
	Chan Chi Hung, Anthony	Ho Tai Wai, David

With the expertise contributed by each of the Directors, the Board has a wide spectrum of valuable business experience, knowledge and professionalism for its efficient and effective functioning. Biographical details are set out in the "Directors and Senior Management" section of this annual report. An updated list of Directors and their respective roles and functions are maintained on the websites of the Company and the Stock Exchange.

During the year, the Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules regarding the appointment of at least three Independent Non-executive Directors including one Independent Non-executive Director with accounting or related financial management expertise and the number of Independent Non-executive Directors representing at least one-third of the Board.

There is no financial, business and family relationship among members of the Board.

Appointment and Re-election

Pursuant to the Bye-laws, the Board may appoint a director either to fill a causal vacancy or as an addition to the Board from time to time during the year following the recommendation from the Nomination Committee. Any Director appointed by the Board to fill a causal vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. In addition, at each annual general meeting, at least one-third of the Directors for the time being shall retire from office by rotation and are eligible for re-election.

THE BOARD (Continued)

Non-executive Directors

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Prior to 1 March 2012, none of the existing Non-executive Directors (including Independent Non-executive Directors) of the Company was appointed for a specific term. However, in accordance with the Bye-laws, during each annual general meeting, at least one-third of the Directors from the time being shall retire from office by rotation. The Company considers that this is no less exacting than those provided in the Code.

Since 1 March 2012, each Non-executive Director (including Independent Non-executive Director) of the Company has entered into a Letter of Appointment with the Company for a specific term not more than three years, subject to re-election at the general meeting.

Independence of Independent Non-executive Directors

The Company has received written confirmation of independence from each of the Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board considers them to be independent in accordance with the Listing Rules.

Role and Delegation

The primary role of the Board is to protect and enhance shareholders' long-term value. It assumes the responsibility for providing effective and responsible leadership and control of the Company, and directing and supervising the Company's affairs in pursuit of the Group's strategic objectives.

The Board, led by the Chairman, approves and monitors Group's strategies and policies, evaluates the performance of the Group and supervises the management. In addition, the Board reserved for its decisions all major matters of the Company, including approval and monitoring of budgets, internal control and risk management, dividend payout, material transaction (in particular those may involve conflict of interests), preparation and release of financial information, appointment of Directors, other significant financial and operational matters.

There is no separation of the role of the Chairman and the Chief Executive Officer in the Company. The Chairman provides leadership of the Board and undertakes the role of the Chief Executive Officer. Mr. Zen has taken up the management of the Group's business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business.

The Board also ensures the good corporate governance policies and practices are implemented within the Group, and is responsible for performing the corporate governance duties including the following:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of the Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

THE BOARD (Continued)

Role and Delegation (Continued)

- to develop, review and monitor the code of conduct manual applicable to employees and the Directors; and
- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

During the year ended 31 December 2012 and up to the date of this report, the Board conducted a review on the Company's corporate governance practices, in light of amendments to the Code and Listing Rules. Existing and new policies and guidelines were revised and adopted. To enhance corporate governance standards within the Group, a corporate governance seminar was conducted by the corporate lawyer to the Board members and senior management. The internal audit team has also carried out a compliance review on the Code and reported to the Board that the Group has properly followed the requirements of the Code.

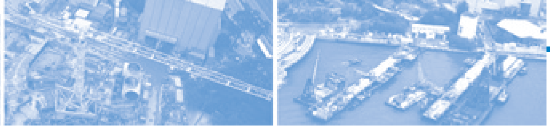
Board Meetings

The Board meets regularly at least four times each year and additional meetings are arranged if and when required. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. During the year, the attendance records of individual Directors at the Board meetings, meetings of three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee, and the annual general meeting held on 15 May 2012 are set out below:

	Meetings attended/held				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**Annual General Meeting held on 15 May 2012**
Executive Directors					
Zen Wei Peu, Derek	5/5	–	1/1	4/4	1/1
Chang Kam Chuen, Desmond	5/5	–	–	–	1/1
Non-executive Directors					
David Howard Gem	3/5	–	–	–	0/1
Cheng Chi Pang, Leslie	4/5	–	–	–	1/1
Chan Chi Hung, Anthony	5/5	–	–	–	1/1
Independent Non-executive Directors					
Chow Ming Kuen, Joseph	5/5	2/3	1/1	4/4	1/1
Ng Chi Ming, James	5/5	3/3	1/1	4/4	1/1
Ho Tai Wai, David	5/5	2/3	1/1	4/4	1/1

Note:

"-": Not Applicable



THE BOARD (Continued)

Board Meetings (Continued)

Notice of regular Board meetings is given to all Directors at least 14 days before each meeting, and all Directors are given the opportunity to include matters in the agenda for discussion at the Board meetings. The agenda and meeting materials are normally sent to all Directors at least three days before the regular Board meeting (and so far as practicable for such other Board meetings) to ensure that they have sufficient time and attention to the affairs of the Company.

In order to have an effective Board, all Directors are provided with information on activities and developments in and the financial performance of the Group's business on a monthly basis to keep them apprised of the latest developments of the Group. They have full access to information on the Group and are able to invite management and professional advisers, where appropriate, to attend Board meetings.

All Directors have direct access to the Company Secretary who is responsible for advising the Board on corporate governance and compliance issues. The Company Secretary is also responsible for taking the minutes of Board and Board Committees' meetings. Such minutes are open for inspection by Directors.

Each Director is required to make disclosure of his interests or potential conflict of interests, if any, in any proposed transactions or issues discussed by Directors at the Board and Board Committees' meetings. Any Director shall not vote on any resolution of the Board and Board Committees approving any contract or arrangement or any other proposal in which he (or his associates) is materially interested nor shall he be counted in the quorum present at the meeting.

Induction and Continuous Professional Development

Directors should keep abreast of their collective responsibilities. Briefing of the Group's business will be given to newly appointed Director and a comprehensive induction package including the statutory and regulatory obligations of a director of a listed company shall also be provided. The Group also provides seminars and trainings to develop and refresh the Directors' knowledge and skills. The Group continuously updates the Directors on the latest developments regarding the Listing Rules and applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

During the year ended 31 December 2012 and up to the date of this report, no new Director is appointed. Two seminars relating to the latest amendments to the corporate governance code and associated Listing Rules were organised for the Directors and management.

THE BOARD (Continued)

Induction and Continuous Professional Development (Continued)

All Directors are requested to provide the Company with their respective training records pursuant to the Code. Trainings received by each of the Directors during the period from 1 January 2012 to 31 December 2012 are summarized as follows:

Name of Directors	Type of continuous professional development
Executive Directors	
Zen Wei Peu, Derek	A,B
Chang Kam Chuen, Desmond	A,B
Non-executive Directors	
David Howard Gem	A,B
Cheng Chi Pang, Leslie	A,B
Chan Chi Hung, Anthony	A,B
Independent Non-executive Directors	
Chow Ming Kuen, Joseph	A,B
Ng Chi Ming, James	A,B
Ho Tai Wai, David	A,B

A: attending seminars and/or conference and/or forum
B: reading newspapers, journals and updates relating to the economy, general business, accounting, laws, rules and regulations, etc.

Directors' and Officers' Liability Insurance and Indemnity

The Company has arranged appropriate Directors' and Officers' Liability Insurance for its Directors and officers covering the costs, losses, expenses and liabilities arising from the performance of their duties. The insurance policy covers legal action against its Directors and officers to comply with the requirement of the Code. During the year, no claim was made against the Directors and officers of the Company.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer is Mr. Zen Wei Peu, Derek.

The role of the Chairman is to oversee the functioning of the Board and ensure the establishment of strategic direction of the Group. The Chairman provides leadership for the Board and ensures that the Company establishes sound corporate governance practices and procedures. He also encourages all the Directors to make a full and active contribution to the affairs of the Board.

THE BOARD (Continued)

Chairman and Chief Executive Officer (Continued)

There is no separation of the role of the Chairman and the Chief Executive Officer in the Company. The Chairman provides leadership of the Board and undertakes the management of the Group's business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business.

The Board considers that this structure will not impair the balance of power and authority between the board and the management of the business of the Group given that there are a strong and independent non-executive directorship element on the Board and a clear division of responsibility in running the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

BOARD COMMITTEES

The Board has delegated authority to three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee, to oversee particular aspects of the Company's affairs. The updated terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are available on the websites of the Company and the Stock Exchange.

Audit Committee

Composition

The Audit Committee was formed in 2004 and currently comprises three members, namely Mr. Ng Chi Ming, James (Chairman of the Audit Committee), Dr. Chow Ming Kuen, Joseph and Mr. Ho Tai Wai, David, all of whom are Independent Non-executive Directors.

Role and Function

The main responsibilities of the Audit Committee are to review the consolidated financial statements and the auditor's reports, and to monitor the integrity of the consolidated financial statements. It also assists the Board to oversee internal control structure, risk management and internal and external audit functions. The Committee meets at least twice a year with the Company's external auditor to discuss the audit process and accounting issues.

Summary of Work Done

The following is a summary of major work performed by the Audit Committee during the year ended 31 December 2012 and up to the date of this report:

- Approval of remuneration and terms of engagement of the external auditor;
- Review of the annual results of the Group for the years ended 31 December 2011 and 2012, and the interim results of the Group for the six months ended 30 June 2012;
- Review of the Group's financial information, financial reporting procedures, internal control system, risk management, and financial and accounting policies and practices;
- Review of external auditor's independence and objectivity and the effectiveness of the audit process, and review of policy on engaging the external auditor to supply non-audit services;

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

Summary of Work Done (Continued)

- Review of the audit plan for financial year ended 31 December 2012;
- Review of internal/external auditor's significant findings and recommendations, and monitoring of the subsequent implementation;
- Recommendation to the Board to re-appoint the external auditor at the 2012 and 2013 annual general meetings;
- Review of the effectiveness of the internal audit function of the Company;
- Review of the 2013 internal audit plan;
- Review of reporting mechanism for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters related to the Company; and
- Meetings with the external auditor, in the absence of Executive Directors and management.

Nomination Committee

Composition

The Nomination Committee was set up in February 2012 and currently comprises four members, namely Mr. Ho Tai Wai, David (Chairman of the Nomination Committee), Dr. Chow Ming Kuen, Joseph, Mr. Ng Chi Ming, James and Mr. Zen Wei Peu, Derek. Except for Mr. Zen Wei Peu, Derek, an Executive Director, all other members are Independent Non-executive Directors.

Role and Function

The Nomination Committee was established to ensure that there are deliberative, considered and transparent procedures for the appointment of the Directors. The duties of this Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become Directors and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships.

Summary of Work Done

The following is a summary of the work performed by the Nomination Committee during the year ended 31 December 2012 and up to the date of this report:

- Review of the structure, size and composition (including the gender, skills, knowledge and experience) of the Board;
- Review of its constitution and terms of reference; and
- Discussion of the issue of independence of the Independence Non-executive Directors;

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

Nomination Procedures

Appointments of new Directors are first considered by the Nomination Committee. In considering the appointment of a Director, this Committee applies criteria such as relevant experience, professional and educational background. The recommendations of this Committee are then put to the Board for consideration and approval. Thereafter, any Director appointed by the Board is subject to re-election at the general meeting after his appointment. Prior to the establishment of this Committee, the above responsibilities were performed by the collective decision of the Board.

Remuneration Committee

Composition

The Remuneration Committee was formed in 2005 and currently comprises four members, namely Dr. Chow Ming Kuen, Joseph (Chairman of the Remuneration Committee), Mr. Ng Chi Ming, James, Mr. Ho Tai Wai, David and Mr. Zen Wei Peu, Derek. Except for Mr. Zen Wei Peu, Derek, an Executive Director, all other members are Independent Non-executive Directors.

Role and Function

The Remuneration Committee has been established to ensure that there are formal and transparent procedures to assist the Board in determining the remuneration policy of the Company and structuring the remuneration of senior management. This Committee is responsible for making recommendation to the Board on the Company's policy and structuring for all Executive Directors' and senior management's remuneration, and reviewing and approving the management's remuneration proposal with reference to the Board's corporate goals and objectives. It also determines, with delegated responsibility, remuneration packages of individual Executive Directors and senior management, and makes recommendations on remuneration of Non-executive Directors.

Summary of Work Done

The following is a summary of the work performed by the Remuneration Committee during the year ended 31 December 2012 and up to the date of this report:

- Review of its terms of reference;
- Approval of the appointment of senior management;
- Approval of year end bonus of Executive Directors for 2011 and 2012;
- Approval of emoluments of Executive Directors (where Mr. Zen Wei Peu, Derek abstained from voting in determining his own remuneration) and senior management; and
- Approval of salary adjustment in July 2012 and January 2013.

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

Remuneration policy

Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as the performance of the individual. No individual determine his own remuneration.

The remuneration of a Director is determined with reference to his duties and responsibilities with the Company and the prevailing market situation. Details of the emoluments of Directors during the year ended 31 December 2012 are set out in note 10 to the consolidated financial statements of this annual report. The emoluments paid to senior management during the year ended 31 December 2012 were within the following bands:

	Number of Senior Management
Up to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	0
HK$1,500,001 to HK$2,000,000	5
HK$2,000,001 to HK$2,500,000	1

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code. All Directors have confirmed, following specific enquiry, that they have complied with the Model Code throughout the year ended 31 December 2012.

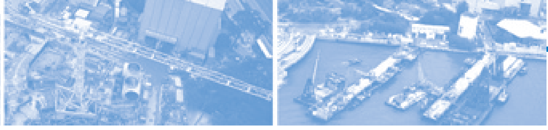
The Company has also adopted a code of conduct governing securities transactions by employees who are likely to be in possession of unpublished price-sensitive information in relation to the Group.

Formal notifications are sent by the Company to all Directors and relevant employees reminding them that they should not deal in the securities of the Company during the "black out period" specified in the Model Code.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities, with the support from the Finance and Accounting Department, to prepare the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

The Directors are aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of price sensitive information, announcements and financial disclosures and authorizes their publication as and when required.



EXTERNAL AUDITOR'S REMUNERATION AND REPORTING RESPONSIBILITIES

Messrs. Deloitte Touche Tohmatsu has been re-appointed as the Company's external auditor at the annual general meeting of 2012 until the conclusion of the next annual general meeting.

The fees paid to external auditor for audit and non-audit services for the year ended 31 December 2012 are as follows:

Type of services	**Fee paid/payable** HK$
Audit fee	1,420,000
Non-audit services	
Interim review fee	440,000
Other services	31,000
Total	1,891,000

The statement of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out on page 37 in the Independent Auditor's Report forming part of this annual report.

INTERNAL CONTROL

The Board has the responsibility to maintain a sound and effective internal control system to safeguard the Company's assets and shareholders' interest.

The internal control system comprises a well-defined organisational structure and comprehensive policies and standards. Responsibilities of each business and operational unit are clearly defined to ensure effective authority delegation and proper segregation of duties.

The Audit Committee, which was delegated by the Board, has reviewed and evaluated, via the internal audit team, the effectiveness of the Group's internal control system put in place by management covering all material controls, including financial, operational and compliance controls as well as risk management functions of the Company and its subsidiaries for the year ended 31 December 2012. The Audit Committee considered the internal control system of the Company and its subsidiaries was effective and adequate.

During the year, the internal audit team conducts systematic reviews of the Group's internal control system by using a risk-based audit approach and reviews the effectiveness of the Group's system of internal control against the framework of the Committee of Sponsoring Organization of the Treadway Commission in order to provide reasonable assurance, but not absolute, of the effectiveness of the system. The internal audit team had carried out its mission by:

- identifying and prioritizing potential business risks;
- performing risk-based audits;
- evaluating effectiveness and compliance with internal policies and procedures;

INTERNAL CONTROL (Continued)

- analyzing causes for errors and irregularities found;
- recommending good internal controls to prevent unintentional mistakes, discourage fraudulent acts, and promote operational efficiency and ethical standards;
- performing follow up procedures on corrective actions;
- appraising the soundness and adequacy of various departments' ongoing maintenance of internal controls;
- providing consulting and advisory services on control and related matters;
- conducting independent investigation of situations raised by whistleblowers, if any; and
- maintaining open communication with the Chairman, Audit Committee and auditee management.

The internal audit team reports directly to the Audit Committee and has free access to review all aspects of the Group's activities and controlling system. The internal audit team reports audit findings together with recommendation to the Audit Committee on a time basis upon completion of the relevant audit review. All critical audit findings and control weaknesses are summarized and presented to the Audit Committee on a semi-annual basis, which in turn reports to the Board.

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

The Group is dedicated to excellence in Quality, Safety and Environmental Protection. Since 2004, it has adopted an Integrated Management System, which is a total management and systematic approach comprising a consistent set of standards and processes, that are applied uniformly across the Group. The system is being constantly reviewed and amended to suit changing circumstances and new legislation. Continual monitoring and reporting at all levels is carried out together with internal and external audits to ensure full compliance. As a testament of the commitment, the Group continues to be accredited under the relevant international standards; namely: ISO9001:2008, OHSAS18001:2007 and ISO14001:2004.

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

- 2 numbers of Construction Site Safety Award (Merit Award) presented by Civil Engineering and Development Department, Hong Kong SAR Government
- 2 numbers of HKCA Environmental Merit Award presented by the Hong Kong Construction Association
- HKCA Safety Merit Award presented by the Hong Kong Construction Association
- 3 numbers of Considerate Contractor Site Awards presented by Development Bureau, Hong Kong SAR Government

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT (Continued)

- 2 numbers of Outstanding Environmental Management and Performance Award presented by Development Bureau, Hong Kong SAR Government
- Best Site Housekeeping Award presented by MTR Corporation Ltd.
- Gold Safety Award presented by MTR Corporation Ltd.
- 3 numbers of Model Workers Awards by Development Bureau, Hong Kong SAR Government
- 3 numbers of Model Frontline Supervisor Awards by Development Bureau, Hong Kong SAR Government

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

SHAREHOLDERS' RIGHTS

The Board and management shall ensure shareholders' rights and all shareholders are treated equitably and fairly. Pursuant to the Bye-laws, any shareholder entitled to attend and vote at a general meeting of the Company is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. In addition, shareholders holding not less than one-twentieth of the total voting rights or not less than 100 shareholders may submit a written request to the Company stating the resolution intended to be proceeded at the annual general meeting.

Any vote of shareholders at a general meeting must be taken by poll (other than procedural matters). Voting results are posted on the websites of the Company and the Stock Exchange on the day of the general meeting. Since May 2009, there were no changes to the memorandum of association of the Company and Bye-laws. The updated versions of the memorandum of association of the Company and Bye-laws are available on the websites of the Company and the Stock Exchange.

Detailed procedures for the shareholders to convene a special general meeting, putting forward proposals at a general meeting and proposing a person for election as a Director are also available on the website of the Company.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

The Board has established a shareholders' communication policy setting out various channels of communication, with the objective of enabling the shareholders to assess the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

The Company regards its shareholders' meeting as an important means of communication with the shareholders in which the shareholders will be able to have an open dialogue with the Board. The Board members, in particular, the chairmen of the Board Committees and appropriate management executives are available to answer questions of the Group's business at the annual general meetings. External auditor also attends the Company's annual general meetings and addresses queries from the shareholders relating to the conduct of the audit and the preparation and content of its auditor's report.

Apart from holding shareholders' meeting, the Company also endeavours to maintain effective communication with all shareholders through other channels such as publication of annual and interim reports, announcements and circulars so as to provide extensive information on the Group's activities, business strategies and developments, and financial position. Such information is also available on the websites of the Company and the Stock Exchange.

Shareholders are also provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, to enable them to make any queries or comments on the Company at any time.

INVESTOR RELATIONS

The Company is committed to maintain effective communications with the shareholders and investors. To this end, the Company maintains an open dialogue with the shareholders and investors through the Company's financial reports, press releases and general meetings that may be convened, as well as making available all the disclosures submitted to the Stock Exchange to provide regular and timely public disclosures on the Company's operating performance and corporate developments.

Independent Auditor's Report

Deloitte.
德勤

德勤 • 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

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

TO THE SHAREHOLDERS OF BUILD KING HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Build King Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 94, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
1 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
Revenue	5	**1,661,195**	1,152,639
Cost of sales		**(1,566,702)**	(1,041,700)
Gross profit		**94,493**	110,939
Investments and other income	7	**31,126**	32,677
Increase (decrease) in fair value of held-for-trading investments		**11,856**	(11,439)
Administrative expenses		**(107,225)**	(106,588)
Finance costs	8	**(1,977)**	(2,122)
Other expenses		**(14,838)**	–
Share of results of jointly controlled entities		**8,071**	3,261
Share of results of associates		**440**	697
Profit before tax	9	**21,946**	27,425
Income tax expense	12	**(1,822)**	(332)
Profit for the year		**20,124**	27,093
Profit for the year attributable to:			
Owners of the Company		**20,669**	25,635
Non-controlling interests		**(545)**	1,458
		20,124	27,093
		HK cents	HK cents
Earnings per share	13		
– Basic		**1.7**	2.1

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**20,124**	27,093
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**858**	2,363
Total comprehensive income for the year	**20,982**	29,456
Total comprehensive income attributable to:		
Owners of the Company	**21,494**	27,882
Non-controlling interests	**(512)**	1,574
	20,982	29,456

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	14	**42,675**	47,934
Intangible assets	15	**65,095**	65,996
Goodwill	16	**30,554**	30,554
Interests in jointly controlled entities	18	**27,963**	40,622
Available-for-sale investment	19	**–**	–
Other financial asset	20	**52,295**	53,400
		218,582	238,506
Current assets			
Amounts due from customers for contract work	21	**138,152**	98,761
Debtors, deposits and prepayments	22	**527,995**	309,442
Amounts due from fellow subsidiaries	23	**–**	364
Amounts due from associates	23	**7,552**	7,171
Amounts due from jointly controlled entities	23	**74,671**	41,637
Held-for-trading investments	24	**41,024**	29,566
Pledged bank deposit	25	**10**	21
Bank balances and cash	25	**55,340**	91,300
		844,744	578,262
Current liabilities			
Amounts due to customers for contract work	21	**125,957**	65,549
Creditors and accrued charges	26	**507,372**	379,227
Amount due to an intermediate holding company	27	**5,149**	16,386
Amounts due to fellow subsidiaries	27	**654**	–
Amount due to an associate	33	**11,052**	9,947
Amounts due to jointly controlled entities	27	**12,465**	6,418
Amounts due to non-controlling interests	27	**3,094**	3,092
Tax liabilities		**899**	–
Bank loans – due within one year	28	**74,387**	16,418
		741,029	497,037
Net current assets		**103,715**	81,225
Total assets less current liabilities		**322,297**	319,731

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
Capital and reserves			
Ordinary share capital	29	**124,188**	124,188
Reserves		**152,246**	130,752
Equity attributable to owners of the Company		**276,434**	254,940
Non-controlling interests		**15,605**	15,817
Total equity		**292,039**	270,757
Non-current liabilities			
Deferred tax liabilities	31	**5,750**	5,750
Obligations in excess of interests in associates	32	**17,795**	18,235
Amount due to an associate	33	**6,713**	7,172
Amount due to a jointly controlled entity	34	**–**	4,067
Bank loans – due after one year	28	**–**	13,750
		30,258	48,974
		322,297	319,731

The consolidated financial statements on pages 38 to 94 were approved and authorised for issue by the Board of Directors on 1 March 2013 and are signed on its behalf by:

Zen Wei Peu, Derek
Chairman

Chang Kam Chuen, Desmond
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Ordinary share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Special reserve HK$'000 (Note)	Asset revaluation reserve HK$'000	Retained profits HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	124,188	14,186	11,259	(63,141)	4,290	136,276	227,058	4,439	231,497
Profit for the year	–	–	–	–	–	25,635	25,635	1,458	27,093
Exchange differences arising on translation of foreign operations	–	–	2,247	–	–	–	2,247	116	2,363
Total comprehensive income for the year	–	–	2,247	–	–	25,635	27,882	1,574	29,456
Capital contribution from non-controlling interests upon the formation of subsidiaries	–	–	–	–	–	–	–	9,804	9,804
At 31 December 2011	124,188	14,186	13,506	(63,141)	4,290	161,911	254,940	15,817	270,757
Profit for the year	–	–	–	–	–	20,669	20,669	(545)	20,124
Exchange differences arising on translation of foreign operations	–	–	825	–	–	–	825	33	858
Total comprehensive income for the year	–	–	825	–	–	20,669	21,494	(512)	20,982
Capital contribution from non-controlling interests upon the formation of a subsidiary	–	–	–	–	–	–	–	300	300
At 31 December 2012	124,188	14,186	14,331	(63,141)	4,290	182,580	276,434	15,605	292,039

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Operating activities		
Profit before tax	**21,946**	27,425
Adjustments for:		
Finance costs	**1,977**	2,122
Amortisation of intangible assets	**1,264**	1,250
Depreciation of property, plant and equipment	**10,058**	14,462
Bad debts written off	**52**	119
Share of results of associates	**(440)**	(697)
Gain on disposal of property, plant and equipment	**(12,930)**	(39)
Gain on disposal of a subsidiary	**(4,080)**	–
(Increase) decrease in fair value of held-for-trading investments	**(11,856)**	11,439
Dividends from held-for-trading investments	**(1,391)**	(1,378)
Share of results of jointly controlled entities	**(8,071)**	(3,261)
Interest on bank deposit	**(218)**	(106)
Interest on other financial asset	**(1,439)**	(1,468)
Interest on held-for-trading investments	**(1,454)**	(386)
Operating cash flows before movements in working capital	**(6,582)**	49,482
Decrease (increase) in other financial asset	**1,105**	(1,019)
Increase in amounts due from customers for contract work	**(39,390)**	(32,268)
Increase in debtors, deposits and prepayments	**(218,190)**	(52,335)
Decrease (increase) in held-for-trading investments	**398**	(16,090)
Increase in amounts due to customers for contract work	**60,408**	35,176
Increase in creditors and accrued charges	**128,145**	131,391
Cash (used in) generated from operations	**(74,106)**	114,337
Interest on other financial asset	**1,439**	1,468
Interest on held-for-trading investments received	**1,039**	–
Interest on bank deposits received	**218**	106
Income taxes paid	**(923)**	(525)
Net cash (used in) from operating activities	**(72,333)**	115,386

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Investing activities			
Distribution of profits from jointly controlled entities		**8,418**	23,911
Advance to associates		**(131)**	(349)
Dividends from held-for-trading investments		**1,391**	1,378
Advances to jointly controlled entities		**(26,987)**	(20,966)
Purchases of property, plant and equipment		**(7,329)**	(27,021)
Placement of pledged bank deposits		**–**	(2)
Withdrawal of pledged bank deposits		**11**	–
Proceeds from disposal of property, plant and equipment		**15,462**	119
Proceed from disposal of a subsidiary	37	**12,325**	–
Net cash from (used in) investing activities		**3,160**	(22,930)
Financing activities			
New bank loans raised		**58,000**	–
Repayment of bank loans		**(13,781)**	(32,527)
Interest paid		**(1,581)**	(1,767)
Advances from fellow subsidiaries		**1,018**	267
(Repayment to) advances from an intermediate holding company		**(11,237)**	2,321
Advance from (repayment to) a non-controlling interest		**2**	(2)
Capital contribution from non-controlling interests upon the formation of subsidiaries		**300**	2,804
Net cash from (used in) financing activities		**32,721**	(28,904)
Net (decrease) increase in cash and cash equivalents		**(36,452)**	63,552
Cash and cash equivalents at beginning of the year		**91,300**	26,812
Effect of foreign exchange rate changes, net		**492**	936
Cash and cash equivalents at end of the year		**55,340**	91,300
Represented by			
Bank balances and cash		**55,340**	91,300

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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

The Company acts as an investment holding company. The principal activities of its significant subsidiaries, associates and jointly controlled entities are set out in notes 43, 32 and 18 respectively.

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

In the current year, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has not early applied the new and revised standards, amendments or interpretation that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 8 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 *"Consolidated and Separate Financial Statements"* that deal with consolidated financial statements and HK (SIC)-Int 12 *"Consolidation – Special Purpose Entities"*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

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

HKFRS 11 replaces HKAS 31 *"Interests in Joint Ventures"* and HK(SIC)-Int 13 *"Jointly Controlled Entities – Non-Monetary Contributions by Venturers"*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards together with the amendments relating to the transitional guidance are effective for the annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time. The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the directors of the Company are in the process of ascertaining the financial impact on application of these standards and amendments.

The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretation will not have material impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. Where assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- 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" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, interests in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "*Impairment of Assets*" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "*Impairment of Assets*" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities (Continued)

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

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

Construction contract

When the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement can be estimated reliably, revenue from fixed price construction contracts is recognised using 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 the amount can be measured reliably and its receipt is considered probable.

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

Others

Service income, including that from operating service provided under service concession arrangements, is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes (plant under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than plant under construction less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Plant under construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Plant under construction are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Construction contracts

Where the outcome of a construction contract including construction services of the infrastructure under a service concession arrangement can be estimated reliably, revenue and costs are recognised in the consolidated income statement by reference to the stage of completion of the contract activity at the end of the reporting period as measured by the proportion that the value of work performed to date to the estimated total contract value. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipts is considered probable.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Service concession arrangements

A service concession arrangement is an arrangement whereby a government or other public sector body contracts with a private operator to develop (or upgrade), operate and maintain infrastructure assets. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls significant residual interest in the assets at the end of the term of the arrangement.

The Group, as an operator, recognises a financial asset if it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services. The Group measures the financial asset at fair value on its initial recognition. At the end of each reporting period subsequent to initial recognition, the financial asset is carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on financial assets below).

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition (see accounting policy on intangible assets below).

The Group recognises and measures revenue for the services in relation to the operation of the plant under a service concession arrangement in accordance with HKAS 11 "*Construction Contracts*" and HKAS 18 "*Revenue*".

Leasing

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

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax 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 end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit 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 associated with investments in subsidiaries, interests in joint ventures and associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded at their cost).

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

Service concession arrangements

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost (which equals to fair value at initial recognition) less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible asset is available for use.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

Financial assets at fair value through profit or loss are measured at fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other financial asset, debtors, amounts due from fellow subsidiaries, associates and jointly controlled entities, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

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

Impairment loss on financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Financial liabilities

Financial liabilities (including creditors and accrued charges, amounts due to an intermediate holding company, an associate and jointly controlled entities, amounts due to non-controlling interests and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, 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 in other comprehensive income is recognised in profit or loss.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 in the profit or loss immediately.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of intangible assets with indefinite useful lives arising from acquisition of a subsidiary

Determining the recoverable amounts of the intangible assets (i.e. construction licenses with indefinite useful lives) arising from the acquisition of a subsidiary, which is included in the consolidated statement of financial position at 31 December 2012 at HK$32,858,000 (2011: HK$32,858,000), requires an estimation of the revenues to be generated in future periods from the acquired construction licenses. The construction projects continue to progress in a satisfactory manner, and the recent new projects successfully secured by the Group have reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licenses. However, increased market competition has caused the management to reconsider its assumptions regarding future market share and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and the management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate is applied in order to calculate the present value. As at 31 December 2012, the carrying amount of goodwill is HK$30,554,000 (2011: HK$30,554,000). Details of the recoverable amount calculation are disclosed in note 17.

Income taxes

As at 31 December 2012, no deferred tax asset has been recognised in the Group's consolidated statement of financial position in relation to unused tax losses of HK$169,364,000 (2011: HK$175,443,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profit or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Construction contracts

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Construction contracts (Continued)

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

5. REVENUE

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

6. SEGMENTAL INFORMATION

The Group is mainly engaged in civil engineering work. Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on geographical location of its customers including Hong Kong, People's Republic of China (the "PRC") and the Middle East. The Group's operating and reportable segments are as follows:

Year ended 31 December 2012

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Group revenue	1,638,554	18,357	4,284	1,661,195
Share of revenue of jointly controlled entities	481,729	–	–	481,729
Segment revenue	2,120,283	18,357	4,284	2,142,924
Group results	(2,098)	13,620	(9,362)	2,160
Share of results of jointly controlled entities	8,071	–	–	8,071
Segment profit (loss)	5,973	13,620	(9,362)	10,231
Unallocated expenses				(1,449)
Investments income				2,845
Increase in fair value of held-for-trading investments				11,856
Share of results of associates				440
Finance costs				(1,977)
Profit before tax				21,946

6. SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2011

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Group revenue	1,101,238	16,278	35,123	1,152,639
Share of revenue of jointly controlled entities	459,040	–	119,178	578,218
Segment revenue	1,560,278	16,278	154,301	1,730,857
Group results	32,503	3,439	1,672	37,614
Share of results of jointly controlled entities	12,051	–	(8,790)	3,261
Segment profit (loss)	44,554	3,439	(7,118)	40,875
Unallocated expenses				(2,350)
Investments income				1,764
Decrease in fair value of held-for-trading investments				(11,439)
Share of results of associates				697
Finance costs				(2,122)
Profit before tax				27,425

There are no inter-segment sales for both years.

All of the segment revenue reported above is from external customers.

6. SEGMENTAL INFORMATION (Continued)

Segment profit (loss) represents the profit earned (loss incurred) by each segment and share of results of jointly controlled entities without allocation of dividends from held-for-trading investments, interest on held-for-trading investments, change in fair value of held-for-trading investments, share of results of associates, finance costs and unallocated expenses.

At 31 December 2012

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Group assets	772,349	96,063	39,613	908,025
Interests in jointly controlled entities	15,903	1,807	10,253	27,963
Segment assets	788,252	97,870	49,866	935,988
Unallocated assets				127,338
Total consolidated assets				1,063,326
Liabilities				
Segment liabilities	666,912	2,462	542	669,916
Obligations in excess of interests in associates				17,795
Unallocated liabilities				83,576
Total consolidated liabilities				771,287

For the year ended 31 December 2012

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	7,322	7	–	7,329
Amortisation of intangible assets	–	1,264	–	1,264
Depreciation of property, plant and equipment	8,322	37	1,699	10,058
Expenses incurred in towing certain vessels	–	–	14,838	14,838
(Loss) gain on disposal of property, plant and equipment	(778)	–	13,708	12,930
Gain on disposal of a subsidiary	–	4,080	–	4,080
Interest income	58	1,599	–	1,657

Note: Non-current assets included all non-current assets except goodwill and available-for-sale investments.

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2011

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Group assets	475,575	103,500	45,620	624,695
Interests in jointly controlled entities	16,251	14,118	10,253	40,622
Segment assets	491,826	117,618	55,873	665,317
Unallocated assets				151,451
Total consolidated assets				816,768
Liabilities				
Segment liabilities	467,252	18,490	3,533	489,275
Obligations in excess of interests in associates				18,235
Unallocated liabilities				38,501
Total consolidated liabilities				546,011

For the year ended 31 December 2011

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	29,653	26	4,342	34,021
Amortisation of intangible assets	–	1,250	–	1,250
Depreciation of property, plant and equipment	6,332	37	8,093	14,462
Gain on disposal of property, plant and equipment	1	–	38	39
Interest income	50	1,524	–	1,574

Note: Non-current assets included all non-current assets except goodwill and available-for-sale investments.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than goodwill, available-for-sale investment, held-for-trading investments, certain deposits and prepayments, pledged bank deposit, and bank balances and cash; and
- all liabilities are allocated to reportable segments other than certain creditors and accrued charges, tax liabilities, bank loans, deferred tax liabilities, obligations in excess of interests in associates, and certain corporate liabilities.

6. SEGMENTAL INFORMATION (Continued)

The Group's non-current assets by geographical location of the assets are detailed below:

	Non-current assets	
	2012	2011
	HK$'000	HK$'000
Hong Kong	**121,756**	110,712
The PRC	**34,174**	47,413
Middle East	**10,357**	26,981
	166,287	185,106

Note: Non-current assets included all non-current assets except available-for-sale investment and other financial asset.

For the year ended 31 December 2012, there were three customers (2011: two) who accounted for over 10% of total revenue with revenue of HK$793,066,000 (2011: HK$611,186,000), HK$247,096,000 (2011: Nil) and HK$216,298,000 (2011: HK$154,556,000) each and they were located in Hong Kong.

7. INVESTMENTS AND OTHER INCOME

	2012	2011
	HK$'000	HK$'000
Investments and other income include:		
Dividends from held-for-trading investments	**1,391**	1,378
Gain on disposal of property, plant and equipment	**12,930**	39
Gain on disposal of a subsidiary (note 37)	**4,080**	–
Interest on bank deposits	**218**	106
Interest on other financial asset	**1,439**	1,468
Interest on held-for-trading investments	**1,454**	386
Service income from an associate for secretarial and management services	**–**	250
Service income from jointly controlled entities	**8,472**	28,707

8. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**1,581**	1,767
Imputed interest expense on non-current interest-free amount due to an associate	**396**	355
	1,977	2,122

9. PROFIT BEFORE TAX

	2012 HK$'000	2011 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration	**1,420**	1,375
Bad debts written off	**52**	119
Depreciation of property, plant and equipment	**10,059**	14,462
Less: amount attributable to construction contracts	**(1)**	–
	10,058	14,462
Hire charges for plant and machinery	**23,956**	23,675
Less: amount attributable to construction contracts	**(23,956)**	(23,675)
	–	–
Amortisation of intangible assets	**1,264**	1,250
Expenses incurred in towing certain vessels from Middle East to Hong Kong (included in other expenses)	**14,838**	–
Net foreign exchange losses	**67**	223
Operating lease rentals in respect of land and buildings	**9,946**	7,844
Less: amount attributable to construction contracts	**(3,943)**	(1,399)
	6,003	6,445
Share of income tax credit of jointly controlled entities (included in share of results of jointly controlled entities)	**–**	(53)
Staff costs:		
Directors' remuneration (note 10)	**7,760**	7,485
Other staff costs	**209,815**	190,662
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$393,000 (2011: HK$115,000)	**10,656**	11,036
	228,231	209,183
Less: amount attributable to construction contracts	**(153,203)**	(132,223)
	75,028	76,960

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration paid or payable to each of the eight (2011: eight) directors and the chief executive were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2012				
Zen Wei Peu, Derek	**–**	**5,061**	**14**	**5,075**
Chang Kam Chuen, Desmond	**–**	**1,623**	**156**	**1,779**
David Howard Gem	**151**	**–**	**–**	**151**
Cheng Chi Pang, Leslie	**151**	**–**	**–**	**151**
Chow Ming Kuen, Joseph	**151**	**–**	**–**	**151**
Ng Chi Ming, James	**151**	**–**	**–**	**151**
Ho Tai Wai, David	**151**	**–**	**–**	**151**
Chan Chi Hung, Anthony	**151**	**–**	**–**	**151**
	906	**6,684**	**170**	**7,760**
Year ended 31 December 2011				
Zen Wei Peu, Derek	–	4,830	12	4,842
Chang Kam Chuen, Desmond	–	1,628	145	1,773
David Howard Gem	145	–	–	145
Cheng Chi Pang, Leslie	145	–	–	145
Chow Ming Kuen, Joseph	145	–	–	145
Ng Chi Ming, James	145	–	–	145
Ho Tai Wai, David	145	–	–	145
Chan Chi Hung, Anthony	145	–	–	145
	870	6,458	157	7,485

Mr. Zen is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Neither the chief executive nor any of the directors waived any emoluments for both years ended 31 December 2012 and 2011.

11. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included one (2011: one) director, details of whose emoluments are set out in note 10 above. The emoluments of the remaining four (2011: four) highest paid individuals were as follows:

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	**7,691**	8,336
Retirement benefits scheme contributions	**507**	430
	8,198	8,766

Their emoluments were within the following bands:

	Number of employees	
	2012	2011
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**1**	3

12. INCOME TAX EXPENSE

	2012	2011
	HK$'000	HK$'000
Current tax:		
Other jurisdiction	**899**	344
Under(over)provision in prior years:		
Hong Kong	**923**	(12)
	1,822	332

Hong Kong Profits Tax is provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits.

No provision for Hong Kong Profits Tax for both years has been made in the consolidated financial statements as the estimated assessable profit has been wholly absorbed by tax losses brought forward.

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

12. INCOME TAX EXPENSE (Continued)

Income tax expense for the year can be reconciled to the profit before tax as follows:

	2012 **HK$'000**	2011 HK$'000
Profit before tax	**21,946**	27,425
Taxation at the applicable rate of 16.5% (2011: 16.5%)	**3,621**	4,525
Tax effect of share of results of associates	**(73)**	(115)
Tax effect of share of results of jointly controlled entities	**(1,332)**	(538)
Tax effect of expenses that are not deductible in determining taxable profit	**3,762**	2,206
Tax effect of income that is not taxable in determining taxable profit	**(1,651)**	(3,279)
Under(over)provision in prior years	**923**	(12)
Tax effect of unrecognised tax losses	**7,818**	2,049
Tax effect of utilisation of tax losses previously not recognised	**(8,433)**	(5,788)
Tax effect on concessionary rate	**(114)**	(70)
Others	**(2,699)**	1,354
Income tax expense for the year	**1,822**	332

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2012 **HK$'000**	2011 HK$'000
Profit for the year attributable to owners of the Company and earnings for the purpose of basic earnings per ordinary share	**20,669**	25,635

	Number of shares **2012** **'000**	2011 '000
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	**1,241,878**	1,241,878

The Company has no potential ordinary shares outstanding during both years. Accordingly, no diluted earnings per share information is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Plant under construction HK$'000	Total HK$'000
COST							
At 1 January 2011	7,677	21,393	23,520	6,224	91,675	–	150,489
Exchange realignment	–	–	31	40	–	–	71
Additions (note)	4,016	7,000	1,830	179	7,927	13,069	34,021
Disposals	(7,677)	–	(7)	(159)	(116)	–	(7,959)
At 31 December 2011	4,016	28,393	25,374	6,284	99,486	13,069	176,622
Exchange realignment	–	–	9	27	–	–	36
Additions	914	260	530	430	2,774	2,421	7,329
Transfer	–	–	–	–	15,490	(15,490)	–
Disposals	–	–	(403)	(617)	(49,068)	–	(50,088)
At 31 December 2012	**4,930**	**28,653**	**25,510**	**6,124**	**68,682**	**–**	**133,899**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	7,677	14,602	22,350	5,873	71,539	–	122,041
Exchange realignment	–	–	25	39	–	–	64
Provided for the year	613	5,149	652	159	7,889	–	14,462
Eliminated on disposals	(7,677)	–	(1)	(158)	(43)	–	(7,879)
At 31 December 2011	613	19,751	23,026	5,913	79,385	–	128,688
Exchange realignment	–	–	6	27	–	–	33
Provided for the year	1,364	2,907	858	142	4,788	–	10,059
Eliminated on disposals	–	–	(302)	(522)	(46,732)	–	(47,556)
At 31 December 2012	**1,977**	**22,658**	**23,588**	**5,560**	**37,441**	**–**	**91,224**
CARRYING VALUES							
At 31 December 2012	**2,953**	**5,995**	**1,922**	**564**	**31,241**	**–**	**42,675**
At 31 December 2011	3,403	8,642	2,348	371	20,101	13,069	47,934

Note: During the year ended 31 December 2011, a non-controlling interest had injected machinery of HK$7,000,000 as part of the capital injection upon the formation of a new subsidiary.

The above items of property, plant and equipment (other than plan under construction) are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	$33^1/_3$% or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 15%

15. INTANGIBLE ASSETS

	Construction licenses HK$'000 (Note a)	Service concession arrangement HK$'000 (Note b)	Total HK$'000
COST			
At 1 January 2011	32,858	33,567	66,425
Exchange realignment	–	1,446	1,446
At 31 December 2011	32,858	35,013	67,871
Exchange realignment	–	383	383
At 31 December 2012	**32,858**	**35,396**	**68,254**
AMORTISATION			
At 1 January 2011	–	599	599
Exchange realignment	–	26	26
Charge for the year	–	1,250	1,250
At 31 December 2011	–	1,875	1,875
Exchange realignment	–	20	20
Charge for the year	–	1,264	1,264
At 31 December 2012	**–**	**3,159**	**3,159**
CARRYING VALUES			
At 31 December 2012	**32,858**	**32,237**	**65,095**
At 31 December 2011	32,858	33,138	65,996

Notes:

(a) The amount represents the fair value of the construction licenses (with indefinite useful lives) held by a wholly-owned subsidiary, Kaden Construction Limited (the "Acquired Subsidiary"), as at the date it was acquired by the Group in 2005.

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

Various studies including sensitivity analysis and market trends have been carried out by the management of the Group, which supports that the construction licenses have no foreseeable limit to the period over which the construction licenses are expected to generate net cash inflow for the Group. As a result, the construction licenses are considered by the management of the Group as having an indefinite useful life because it is expected to contribute net cash inflow indefinitely. The construction licenses will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding the impairment testing on construction licenses are disclosed in note 17.

15. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(b) A subsidiary of the Company, Wuxi Qianhui Sewage Treatment Co., Ltd. ("Wuxi Qianhui"), entered into a service concession arrangement with the local government whereby Wuxi Qianhui is required to build the infrastructure of a sewage treatment plant phase II (see note 20 for details of sewage treatment plant phase I) and is granted an exclusive operating rights for provision of sewage treatment services to the industrial and domestic users in Qian Qiao Zhen, Hui Shan District, Wu Xi City, Jiang Su Province of the PRC for a term of 30 years.

Pursuant to the service concession arrangement contracts, Wuxi Qianhui is responsible for the construction of sewage treatment plant phase II and entitled to operate the sewage treatment plant phase II upon completion for a specified concession period by charging users of the public service, which amounts are contingent on the extent that the public uses the service. At the end of the operating period, Wuxi Qianhui is required to transfer the sewage treatment plant phase II to the local government. As such, the arrangement is accounted for as a service concession arrangement and the right to charge the users of the public service is recognised as intangible asset. The Group estimates the fair value of the intangible asset to be equal to the construction costs plus certain margin. Amortisation of the intangible asset will be provided for over the operation period on a straight line basis when the sewage treatment commences its operation of 30 years.

The sewage treatment plant phase II had been put into operation in 2010.

16. GOODWILL

The amount represents goodwill arising on the reverse acquisition of the Company in 2004. Particulars regarding impairment testing on goodwill are disclosed in note 17.

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

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

For the purpose of impairment testing, intangible asset with indefinite useful lives set out in note 15 have been allocated to a CGU, a subsidiary, acquired in 2005, which is included in Hong Kong segment and holds the construction licenses granted by the Works Branch, Development Bureau of the HKSAR and through which it is eligible to undertake government construction contracts for all five categories of public works with no limitation in contract sum.

The recoverable amounts of the above group of 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% (2011: 10%). 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.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK$'000	2011 HK$'000
Cost of investment in unlisted jointly controlled entities	**3**	20,067
Share of post-acquisition profits and other comprehensive income, net of dividends received	**27,960**	20,555
	27,963	40,622

At 31 December 2012 and 2011, 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 2012 %	2011 %	Principal activities
ACC-Leader Joint Venture	Unincorporated	Middle East	**50**	50	Civil engineering
Chun Wo-Leader Joint Venture	Unincorporated	Hong Kong	**51** (note a)	51	Civil engineering
Kaden-VSL Joint Venture	Unincorporated	Hong Kong	**55** (note a)	55	Civil engineering
Kier-Kaden-OSSA Joint Venture	Unincorporated	Hong Kong	**35**	35	Civil engineering
Kier-Laing O'Rourke-Kaden Joint Venture	Unincorporated	Hong Kong	**15** (note b)	15	Civil engineering

Notes:

(a) The Group holds greater than 50% interests in this entity. However, under the joint venture agreement, the entity is jointly controlled by the Group and the other joint venture partner. Therefore, the entity is classified as a jointly controlled entity.

(b) The Group holds less than 20% interests in this entity. However, under the joint venture agreement, the entity is jointly controlled by the Group and the other significant joint venture partners. Therefore, the entity is classified as a jointly controlled entity.

18. 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 interests in the jointly controlled entities which are accounted for using the equity method is set out below:

Share of results attributable to the Group

	2012 HK$'000	2011 HK$'000
Revenue	**481,729**	578,218
Other income	**–**	–
Total revenue	**481,729**	578,218
Total expenses	**(473,658)**	(575,010)
Profit before tax	**8,071**	3,208
Income tax credit	**–**	53
Profit for the year	**8,071**	3,261

Share of assets and liabilities attributable to the Group

	2012 HK$'000	2011 HK$'000
Non-current assets	**21,739**	21,245
Current assets	**436,296**	384,102
Current liabilities	**(430,072)**	(364,725)
Net assets	**27,963**	40,622

19. AVAILABLE-FOR-SALE INVESTMENT

	2012 HK$'000	2011 HK$'000
Unlisted equity securities, at cost	**800**	800
Less: Impairment loss recognised	**(800)**	(800)
	–	–

The unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair values cannot be measured reliably.

20. OTHER FINANCIAL ASSET

Wuxi Qianhui entered into a service concession arrangement with the local government whereby Wuxi Qianhui is required to build the infrastructure of a sewage treatment plant phase I and is granted exclusive operating rights for provision of sewage treatment services to the industrial and domestic users in Qian Qiao Zhen, Hui Shan District, Wu Xi City, Jiang Su Province of the PRC for a term of 30 years.

At the end of the operating period, Wuxi Qianhui is required to transfer the sewage treatment plant to the local government. Wuxi Qianhui commenced the construction in 2005 and finished in 2006. The sewage treatment plant phase I had been put into operation commencing from 2007.

Under the service concession arrangement, the local government of Qian Qiao Zhen guarantees a minimum volume of sewage to be treated by the plant with a fixed predetermined rate per tons of sewage. The agreed price will be reviewed annually. Therefore, the service concession arrangement is classified as financial assets. The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised as other financial asset carrying effective interest rate of 2.61% (2011: 2.61%) per annum and repayable over the service concession period of 30 years.

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

	2012 **HK$'000**	2011 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**5,726,792**	4,105,065
Less: Progress billings	**(5,714,597)**	(4,071,853)
	12,195	33,212
Represented by:		
Due from customers included in current assets	**138,152**	98,761
Due to customers included in current liabilities	**(125,957)**	(65,549)
	12,195	33,212

22. DEBTORS, DEPOSITS AND PREPAYMENTS

The following is an aged analysis of trade receivables net of allowances for doubtful debts presented based on the invoice date at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
Trade receivables analysed by age:		
0 to 60 days	385,152	221,091
Over 90 days	118	169
	385,270	221,260
Retention receivables	94,527	62,022
Other debtors, deposits and prepayments	48,198	26,160
	527,995	309,442
Retention receivables:		
Due within one year	45,033	52,888
Due more than one year	49,494	9,134
	94,527	62,022

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

Included in the Group's trade receivables are debtors with a carrying amount of HK$118,000 (2011: HK$169,000) which are past due but not impaired as at the end of the reporting period. As there has not been a significant change in credit quality, the amounts are still considered recoverable.

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
Overdue 30 days	118	169

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. The majority of the Group's trade receivables that are neither past due nor impaired have good credit quality with reference to respective settlement history.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

23. AMOUNTS DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/JOINTLY CONTROLLED ENTITIES

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

24. HELD-FOR-TRADING INVESTMENTS

	2012 HK$'000	2011 HK$'000
Held-for-trading investments stated at fair value:		
– Equity securities listed in Hong Kong	**24,504**	15,424
– Equity securities listed in the United States of America	**–**	270
– Debt securities listed in Singapore	**16,520**	13,872
	41,024	29,566

At 31 December 2012, certain equity securities with market value of HK$20,310,000 (2011: HK$13,350,000) were pledged to a bank to secure general banking facilities granted to the Group. Although these equity securities were pledged to the bank, the Group is allowed to trade the pledged securities upon the repayment of respective bank borrowings. In relation to the pledge of equity securities, the bank also requires certain subsidiaries of the Company that are entitled to the bank facilities to provide cross guarantee to the bank.

25. PLEDGED BANK DEPOSIT/BANK BALANCES

Bank deposit of the Group amounting to HK$10,000 (2011: HK$21,000) was pledged to a bank for securing the banking facility granted to the Group. The pledged bank deposit carries fixed interest rate at 0.01% (2011: 0.01%) per annum.

Bank balances carry average market interest rate ranging from 0.01% to 0.25% (2011: 0.01% to 0.25%) per annum.

26. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
Trade creditors analysed by age:		
0 to 60 days	**89,136**	78,681
61 to 90 days	**4,384**	876
Over 90 days	**3,453**	3,770
	96,973	83,327
Retention payables	**102,447**	58,084
Accrued project costs	**295,435**	203,307
Other creditors and accrued charges	**12,517**	34,509
	507,372	379,227
Retention payables:		
Repayable within one year	**43,006**	46,348
Repayable more than one year	**59,441**	11,736
	102,447	58,084

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

27. AMOUNT(S) DUE TO AN INTERMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/JOINTLY CONTROLLED ENTITIES/NON-CONTROLLING INTERESTS

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

28. BANK LOANS

	2012	2011
	HK$'000	HK$'000
The maturity of bank loans is as follows:		
On demand or within one year	**74,387**	16,418
In the second year	**–**	13,750
	74,387	30,168
Less: Amount due within one year shown under current liabilities	**(74,387)**	(16,418)
Amount due after one year	**–**	13,750
Secured	**13,750**	22,500
Unsecured	**60,637**	7,668
	74,387	30,168

At the end of the reporting period, all bank loans are variable rate borrowings which carry interest rate ranging from 3.03% to 3.59% (2011: 2.15% to 3.75%) per annum. Bank loans of HK$13,750,000 (2011: HK$26,337,000) carry an interest rate which is repriced every six months. The remaining bank loans carry interest rate which is repriced every month.

As at 31 December 2012, bank loan that is repayable more than one year after the end of the reporting period but contains a repayment on demand clause with the aggregate carrying amount of HK$1,397,000 (2011: HK$2,637,000) has been classified as current liabilities.

As at the end of the reporting period, the Group has undrawn borrowing facilities of HK$123,110,000 (2011: HK$99,650,000).

Certain bank loans are secured by personal guarantees of a director of the Company.

29. ORDINARY SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 January 2011, 31 December 2011 and 31 December 2012	1,241,877,992	124,188

30. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2011, 31 December 2011 and 31 December 2012	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
At 1 January 2011, 31 December 2011 and 31 December 2012	–	–

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

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

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

31. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group represent fair value of intangible assets arising from the acquisition of a subsidiary during the year ended 31 December 2005. There is no movement of balance during each of the two years ended 31 December 2012.

At the end of the reporting period, the Group has unutilised tax losses carried forward to offset future profits, the utilisation of which will expire in the following years:

	2012	2011
	HK$'000	HK$'000
Tax losses:		
To expire in 2012	**–**	2,355
To expire in 2013	**4,298**	4,298
To expire in 2014	**1,584**	1,584
Carried forward indefinitely	**163,482**	167,206
	169,364	175,443

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

32. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2012	2011
	HK$'000	HK$'000
Cost of investment in unlisted associates	**4**	4
Share of post-acquisition losses (note)	**(17,799)**	(18,239)
	(17,795)	(18,235)

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

Details of the incorporated principal associate of the Group as at 31 December 2012 and 2011 are as follows:

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

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

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

	2012	2011
	HK$'000	HK$'000
Total assets	**87,401**	78,594
Total liabilities	**(122,991)**	(115,064)
Net liabilities	**(35,590)**	(36,470)
Group's share of net liabilities of associates	**(17,795)**	(18,235)
Revenue	**16,407**	14,636
Profit for the year	**880**	1,394
Group's share of results of associates for the year	**440**	697

33. AMOUNT DUE TO AN ASSOCIATE

The current amount due to an associate is unsecured, interest-free and repayable on demand.

The non-current amount due to an associate is unsecured, interest-free and has no fixed repayment terms. The associate has agreed not to demand repayment within twelve months from the end of the reporting period and the balance is therefore shown as non-current liabilities. The non-current amount is carried at amortised cost using effective interest of 5.4% (2011: 5.4%) per annum.

34. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount was unsecured, interest-free and had no fixed repayment terms. The jointly controlled entity had agreed not to demand repayment within twelve months from the end of the reporting period and the balance was therefore shown as a non-current liability. The amount had been included in the net assets of a subsidiary being disposed of during the year ended 31 December 2012 (see note 37).

35. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank loans disclosed in note 28 and equity attributable to equity holders of the Company, comprising issued capital and reserves.

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

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

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Held-for-trading investments	**41,024**	29,566
Loans and receivables (including cash and cash equivalents)	**681,916**	493,515
Available-for-sale investment	**–**	–
	722,940	523,081
Financial liabilities		
Amortised cost	**616,649**	456,477

(b) Financial risk management objectives and policies

The Group's major financial instruments include other financial asset, debtors, amounts due from fellow subsidiaries, associates and jointly controlled entities, held-for-trading investments, pledged bank deposit, bank balances, creditors and accrued charges, amounts due to an intermediate holding company, fellow subsidiaries, an associate, jointly controlled entities and non-controlling interests and bank loans. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

At 31 December 2011, certain bank loans amounting to HK$3,837,000 were denominated in United States dollars which were different from the functional currency of the respective group entity (i.e. Hong Kong dollars) and therefore the Group was exposed to currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency should the need arise.

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

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank loans (see note 28 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank loans.

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by HK$744,000 (2011: HK$302,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank loans.

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

(iii) Other price risk

The Group is exposed to equity and debt security price risk through its investments in listed-held-for-trading investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles. The Group's other price risk is mainly concentrated on equity and debt instruments operating in infrastructure industry sector quoted in the Stock Exchange and Singapore Exchange Securities Trading Limited respectively.

Other price sensitivity analysis

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

If the prices of the respective equity and debt instruments had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2012 would increase/decrease by HK$2,051,000 (2011: HK$1,478,000) as a result of the changes in fair value of held-for-trading investments.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. The Group is exposed to concentration of credit risk as the major customers of the Group are the HKSAR Government and a reputable organisation. The directors of the Company consider that the HKSAR Government and the reputable organisation are financially sound and accordingly no provision is required.

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

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

The credit risk for bank deposits is limited because the directors of the Company consider that the counterparties are financially sound.

Liquidity risk

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

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of reporting period.

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012								
Non-interest bearing	–	453,166	21,982	75	60,926	14,875	551,024	542,262
Variable interest rate instruments	3.42	60,637	13,931	–	–	–	74,568	74,387
		513,803	35,913	75	60,926	14,875	625,592	616,649

36. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011								
Non-interest bearing	–	366,336	18,309	18,689	14,213	18,170	435,717	426,309
Variable interest rate instruments	3.44	3,831	4,034	9,632	14,034	–	31,531	30,168
		370,167	22,343	28,321	28,247	18,170	467,248	456,477

Bank loan with a repayment on demand clause that is repayable more than one year after the end of the reporting period is included in the "Repayable on demand or 3 months or less" time band in the above maturity analysis. As at 31 December 2012, the aggregate undiscounted principal amount of the bank loan amounted to HK$1,397,000 (2011: HK$2,637,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid during the "1-3 years" time band after the reporting date in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to HK$1,426,000 (2011: HK$2,746,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value

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

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

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

The directors of the Company 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.

36. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset is determined based on the lowest level of significant input to the fair value measurement.

The following table presents the Group's assets that are measured at fair value at the end of the reporting period:

	Level 1	
	2012	2011
	HK$'000	HK$'000
Equity and debt securities, listed	**41,024**	29,566

There have been no transfers between level 1 and 2 during the year.

37. DISPOSAL OF A SUBSIDIARY

On 5 March 2012, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in a wholly-owned subsidiary incorporated in Hong Kong, Leader Construction Overseas Limited ("Leader Overseas") which holds 51% equity interest in a jointly controlled entity, Shanxi Jin Ya Road and Bridge Construction Co., Ltd., an entity registered in the PRC to an independent third party at a consideration of RMB10,000,000 (equivalent to HK$12,325,000). The disposal enables the Group to realise its investment in the PRC construction business, so that it may focus on its civil engineering business in Hong Kong. The disposal was completed upon receipt of the full consideration, on which date the Group lost control of Leader Overseas.

The administrative expenses and loss from Leader Overseas for the year are HK$6,134,000 (2011: HK$1,000).

The net assets of Leader Overseas over which control was lost at the date of disposal were as follows:

	HK$'000
Interest in a jointly controlled entity	12,312
Amount due to a jointly controlled entity	(4,067)
Net assets disposed of	8,245
Gain on disposal of a subsidiary:	
Consideration received	12,325
Net assets disposed of	(8,245)
Gain on disposal	4,080

Leader Overseas does not contribute any significant cash flows to the Group during the current and prior years.

38. CONTINGENT LIABILITIES

	2012	2011
	HK$'000	HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**242,799**	151,934

39. COMMITMENTS

Operating lease commitments

The Group as lessee

At 31 December 2012, 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:

	2012	2011
	HK$'000	HK$'000
Within one year	**9,891**	11,034
In the second to fifth years inclusive	**5,952**	11,692
	15,843	22,726

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

40. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to the consolidated income statement of HK$10,826,000 (2011: HK$11,193,000) represents contributions paid or payable to the retirement benefits schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

41. RELATED PARTY TRANSACTIONS

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

	2012 **HK$'000**	2011 HK$'000
Immediate holding company		
Corporate guarantee fee expense	**312**	359
Fellow subsidiary		
Construction contract revenue	**–**	952
Purchase of construction materials	**36,799**	3,552
Associate		
Secretarial and management service income	**–**	250
Jointly controlled entities		
Management fee income	**8,472**	28,707
Construction contract revenue	**–**	32,070
Purchase of property, plant and equipment	**–**	3,800
Plant hire income	**2,700**	–
Service income	**143**	–

Details of the balances with associates, jointly controlled entities, an intermediate holding company, fellow subsidiaries and non-controlling interests are disclosed in the consolidated statement of financial position and respective notes.

Compensation of key management personnel

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

	2012 **HK$'000**	2011 HK$'000
Short-term benefits	**17,484**	18,678
Post-employment benefits	**507**	816
	17,991	19,494

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

At 31 December 2012, a director provided personal guarantees amounting to HK$12,500,000 (2011: HK$12,500,000) to a bank to secure the general banking facilities granted to the Group.

At 31 December 2011, Wai Kee provided corporate guarantees amounting to HK$25,000,000 to a bank to secure the general banking facilities granted to the Group and charged corporate guarantee fee of HK$359,000 to the Group during the year ended 31 December 2011. At the end of the reporting period, the said corporate guarantees were discharged and total corporate guarantee fee of HK$312,000 was charged to the Group by Wai Kee for the year.

41. RELATED PARTY TRANSACTIONS (Continued)

At 31 December 2012 and 2011, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

In addition to above, the Group has an interest in a jointly controlled entity (the "JCE") with carrying value of HK$1,807,000 (2011: HK$1,807,000) for the site formation of Zhejiang Shenjiawan – Zhongmentong. The JCE is an unincorporated jointly controlled entity operating in the PRC, with a 50% attributable interests held by a wholly-owned subsidiary of the Company and the remaining attributable interest held by two wholly-owned subsidiaries of Wai Kee.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 HK$'000	2011 HK$'000
Non-current asset		
Unlisted investments in subsidiaries	**60,000**	60,000
Current assets		
Amounts due from subsidiaries	**28,949**	28,912
Bank balances and cash	**5,426**	6,772
	34,375	35,684
Current liabilities		
Amount due to an intermediate holding company	**2,514**	2,514
Amounts due to subsidiaries	**4,572**	23
Bank loan	**–**	3,837
Other current liabilities	**26**	70
	7,112	6,444
Net current assets	**27,263**	29,240
Total assets less current liabilities	**87,263**	89,240
Capital and reserves		
Ordinary share capital	**124,188**	124,188
Reserves	**(36,925)**	(34,948)
Total equity	**87,263**	89,240

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000 (Note)	Other reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	14,186	419,212	115	(466,349)	(32,836)
Loss for the year	–	–	–	(2,112)	(2,112)
At 31 December 2011	14,186	419,212	115	(468,461)	(34,948)
Loss for the year	–	–	–	(1,977)	(1,977)
At 31 December 2012	**14,186**	**419,212**	**115**	**(470,438)**	**(36,925)**

Note: The contributed surplus and other reserve represent adjustments in share capital on the reverse acquisition of the Company in 2004.

43. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Archibuild Limited	Hong Kong	Hong Kong	HK$6,000 Ordinary shares HK$4,000 Preferred shares (note a)	100 –	Supply and provision of installation works of stone products
Allied Wise Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Amazing Reward Group Limited	British Virgin Islands ("BVI")	Hong Kong	US$1,000,000	100	Investment holding
Champ Foundation Limited	Hong Kong	Hong Kong	HK$20,000,000	51	Civil engineering
Kaden Construction Limited	United Kingdom	Hong Kong	GBP16,072,500	100	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares HK$24,000,000 Non-voting deferred shares	100 100	Civil engineering

43. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Leader Construction Company Limited	Hong Kong	Hong Kong	HK$2	100	Provision of administrative and management services to group companies
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK$200,000	100	Marine engineering and provision of transportation services
Leader Marine L.L.C.	Sharjah, United Arab Emirates ("U.A.E.")	U.A.E.	Dh300,000	100	Ships and boats rental and shipping services
Leader Marine Cont. L.L.C.	Sharjah, U.A.E.	U.A.E.	Dh300,000	100	First class contracting/ specialised in marine construction
Profound Success Limited	BVI	Hong Kong	US$1	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US$1	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	PRC	HK$10,000,000	100	Civil engineering
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK$25,000,002 Ordinary shares HK$14,800,000 Non-voting deferred shares HK$5,200,000 Non-voting deferred shares (note b)	100 100 –	Civil engineering
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK$1	100	Provision of secretarial and nominee services
Wuxi Qianhui Sewage Treatment Co., Ltd. (note c)	PRC	PRC	US$5,400,000	95.6	Sewage treatment
Yat Hing Decoration Works Limited	Hong Kong	Hong Kong	HK$1,000,000	70	Fitting out, improvement and alternation works for buildings
惠記環保工程(上海)有限公司 (note d)	PRC	PRC	US$800,000	100	Environmental engineering

43. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) These preferred shares, which are not held by the Group, practically carry rights to dividends and rights to receive notice of or to attend or vote at any general meeting of the company. On winding up, both the holders of the ordinary shares and the holders of the preferred shares are entitled to a distribution out of the remaining assets of the company on a pro rata basis in proportion to the number of shares held by them respectively.

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

(c) The company is a co-operative joint venture registered in the PRC.

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

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

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

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

Financial summary

RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Group revenue	751,130	822,072	722,396	1,152,639	**1,661,195**
Share of revenue of jointly controlled entities	214,412	213,071	192,572	578,218	**481,729**
	965,542	1,035,143	914,968	1,730,857	**2,142,924**
Group revenue	751,130	822,072	722,396	1,152,639	**1,661,195**
Operating (loss) profit					
Company and subsidiaries	(118,163)	32,511	(274)	25,589	**15,412**
Share of results of jointly controlled entities	26,572	37,869	30,039	3,261	**8,071**
Share of results of associates	1,457	1,709	(188)	697	**440**
Finance costs	(7,323)	(3,774)	(1,710)	(2,122)	**(1,977)**
(Loss) profit before tax	(97,457)	68,315	27,867	27,425	**21,946**
Income tax credit (expense)	142	(4,053)	(322)	(332)	**(1,822)**
(Loss) profit for the year	(97,315)	64,262	27,545	27,093	**20,124**

FINANCIAL POSITION

	At 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	646,741	583,851	638,298	816,768	**1,063,326**
Total liabilities	(553,781)	(427,164)	(406,801)	(546,011)	**(771,287)**
Net assets	92,960	156,687	231,497	270,757	**292,039**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zen Wei Peu, Derek
(Chairman, Chief Executive Officer & Managing Director)
Chang Kam Chuen, Desmond

Non-executive Directors

David Howard Gem
Cheng Chi Pang, Leslie
Chan Chi Hung, Anthony

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Chang Kam Chuen, Desmond

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Reed Smith Richards Butler
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China CITIC Bank International Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Units 601-605A, 6th Floor, Tower B
Manulife Financial Centre
223 Wai Yip Street
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Progressive Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

00240

WEBSITE

www.buildking.hk