Build King Holdings Limited

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

ANNUAL REPORT 2008

Contents

Financial Highlights

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of decrease in equity* per share**	51%
Equity	HK$87 million
Equity per share	HK9 cents
Group revenue and share of revenue of jointly controlled entities	HK$966 million
Loss attributable to equity holders of the Company	HK$94 million

* equity refers to equity attributable to equity holders of the Company
** including ordinary shares and convertible preference shares

FINAL DIVIDEND

The board of directors ("Board") does not recommend the payment of a final dividend for the year ended 31 December 2008.

During 2008, the Group's loss in equity was HK$90 million (comprising of HK$4 million currency appreciation of equity investment overseas and HK$94 million loss from operation) whilst the equity per share decreased by 51% to HK9 cents.

This year ends up in a huge disappoint to me, to our staff and to all our shareholders. The value of the Group's investment portfolio has dropped substantially due to the general adverse market conditions. Our construction business recorded a loss for the second consecutive year due largely to our Taiwan operation.

On the other hand, as predicted last year, our UAE operation is showing real profit. We expect further growth in the next few years and we are confident that it will be a profitable center for the coming years.

Likewise at our sewage treatment plant in Wuxi, the daily flow increased to 18,000 tonnes/day by the year end and is recording profit. We expect the flows to increase further and the profit from this investment to grow thereby securing a steady source of income for the years to come.

In the near future, with the expected increase in infrastructure construction in Hong Kong, our focus will be in Hong Kong as well as the UAE, together with environmental infrastructure projects in China.

BUSINESS ANALYSIS

Construction

The core business of our Group is construction; this represented over 97% of our turnover in 2008 of which 86% was in Hong Kong.

The results in Hong Kong have been mixed. In early 2008, I advised you that we decided to change our tendering strategy to bid largely in the private sector with higher margins and only for those projects where we could be confident of reasonable cash flows. This strategy has resulted in fewer but profitable contracts, and better cash flows. The drawback has been a significantly reduced turnover. As a result, we have been forced to reduce our headcount and it was sad to see a number of our staff leave. In particular towards the end of 2008 and the months following there have been significant changes in the top management team. Vice Chairman, Mr. Yu Sai Yen, and the directors of our subsidiaries Mr. Alan Clarke and Mr. Ko Kin Wah, Max, all left the Group. All three have over the years contributed significantly, and I wish each of them every success in future. Whether in a new post, career or in retirement, I am sure we will continue to be friends.

BUSINESS ANALYSIS – continued

Construction – continued

Over the last few years we have placed considerable emphasis on succession planning. New directors and managers have been identified and have risen to take up the challenge. They are all in their late thirties or early forties and the transition has been smooth and well received. I look forward to this new generation of managers leading the Group to success in the coming years.

The Hong Kong Government has announced that a number of major infrastructure projects will be implemented during the next few years. In 2007, the actual government spending on construction was circa HK$23 billion and in 2008 about HK$24 billion. As new projects commence, we expect expenditure in 2009 to be around HK$30 billion, but by 2011 it is estimated this will come close to HK$50 billion. In recent months we have already observed an increased level of tendering activity within the industry, and we expect to see this trend continue. With more activity, we expect the margins to gradually improve. Despite the economic downturn, we believe that the construction should have a good run of 5-7 years, if not more. The main concern is to find resources including staff to cope with the increased activity. I hope most of our old staff may be persuaded to return and that we may have a chance to work together again. Year 2009 may still be difficult, but the future is surely brighter.

As I said in the opening, the Group's main setback came from Taiwan. We have had an office in Taiwan for over 10 years and in aggregate it has been a profitable operation. However, our only project in Taiwan in 2008 hit us badly. First the marine subcontractor ran into financial difficulty and walked away halfway through, and as the project was in Kinmen（金門）, it was hard to find a replacement. The client's attitude was also very harsh; in addition to not paying adequately for the work in progress, they withheld all payment when site progress was 10% behind programme. In the end we decided it was too much of a risk to continue the project without the blessing from the client. The client subsequently terminated the contract. All in all we registered a total loss of HK$34 million. Given this background, we have decided to close our operation in Taiwan and take this one time loss to protect the Group from more unknown risk.

On the other hand, as predicted our operation in the UAE is proving to be promising and registered a profit of HK$ 22 million. In 2009, we have budgeted a further increase in turnover – to HK$250 million with a meaningful profit. With our partner Arabian Construction Company we have focused mainly on Abu Dhabi; we have no projects in Dubai. We have and will continue to concentrate on infrastructure and in particular on marine related civil engineering. Like elsewhere building construction activities in UAE, particularly in Dubai, are affected by the financial turmoil but at this stage we see little slowdown in infrastructure. We are therefore hopeful that our venture into Middle East will prove rewarding and hopefully in the not too distant future we may be able to expand further. We have already sent further marine plant to the UAE during the year as well as more Hong Kong staff to reinforce the management.

BUSINESS ANALYSIS – continued

Construction – continued

Our construction activity in China does not look too bright as we have to compete with local companies whose cost structure by nature is lower than ours. As a result, we have sold our share of the joint venture back to Road King Infrastructure Limited. The reward has not been proportional to the effort spent and by focusing on the UAE and Hong Kong, we believe we will be able to achieve a better overall result.

Environmental Infrastructure Projects

Our sewage treatment plant in Wuxi is operating normally and by mid-2008 the flow had already exceeded 15,000 tonnes/day and by year end around 18,000 tonnes/day, very close to the designed capacity of 20,000 tonnes/day. It is expected that the design capacity will be surpassed by mid-2009 and the County Government will approach us on the second phase construction.

During 2008 the Government of Jiangsu Province implemented more stringent outflow criteria. This has required us to upgrade the plant and as a result a higher charge rate for treatment per ton was agreed towards the end of the year. This has slightly improved the overall bottom line further and may shorten the pay back period a little. Given this track record and the potential for environmental business, we will look for similar projects in China to strengthen our involvement in this market.

Investment

This is a subject I wish I could avoid mentioning. The market value of our securities portfolio decreased by 30% from HK$134 million to HK$94 million (including HK$76 million cash from disposal of securities). On the surface this appears normal given that the Heng Sang Index dropped 48%.

Our initial investment which started April 2004 was HK$50 million and by the end of 2008 was HK$94 million. This might still look acceptable, but I have to be honest with you that part of the reason for liquidating some of our positions was to meet the cash flow needs of our construction activities. This has turned out to be a stroke of luck avoiding further losses had we held on to those positions.

I have no intention to invest in equity with borrowed money and unless our cash flow position improves significantly in the coming few years, I do not see us adding any new investment to the Group's portfolio.

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 with the management in the forthcoming Annual General Meeting (AGM), 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.

Appreciation

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

Zen Wei Peu, Derek
Chairman

2 April 2009

BUSINESS REVIEW AND PROSPECT

Operating Results

During 2008, the total group turnover including the share of jointly controlled entities ("Group Turnover"), decreased by HK$319 million from HK$1,285 million in 2007 to HK$966 million in 2008. A loss of HK$97 million was recorded for the year, comprising of HK$47 million unrealized loss in value of the Group's portfolio of Hong Kong listed securities and HK$50 million loss due to construction activities.

The loss in construction was mainly attributable to termination of a project in Taiwan together with the continuing keen construction competition in Hong Kong. Firstly, in Taiwan a marine construction project at Shuitou Port in Kinmen was terminated by the client due to a dispute on progress of the work. This has resulted in a provision for loss of HK$34 million. Secondly, the Hong Kong market has continued to be very competitive. The margin on projects awarded in previous years has been thin and results have been further adversely affected by escalating material costs. In the Middle East, prospects are brighter and we have recorded our first profit.

As at the date of this report, the aggregate outstanding value of contracts is approximately HK$1,151 million.

Hong Kong

We have been cautious in bidding for new projects and have only tendered with reasonable margins and positive cashflow. Hence, during 2008, only four contracts of total value HK$296 million were awarded – a noise barrier work at MTRC Fo Tan station, "greening works" in the urban areas for the Civil Engineering and Development Department, construction of sewers and rising mains on Lamma Island for the Drainage Services Department and further refurbishment work at Hung Hom station for the MTRC. The performance on all these new contracts to date is satisfactory and within budget.

During the year, we have consolidated the management structure in Hong Kong and reduced overhead costs significantly with the aim of improving our competitive position. The Hong Kong construction market has been stagnant for several years but we expect that expenditure on public sector works will increase significantly over the next few years. With the wealth of experience in the Group, we expect to be benefited from the change of market environment and will tender actively to secure new projects.

BUSINESS REVIEW AND PROSPECT – continued

Middle East – United Arab Emirates ("UAE")

During the year, the Group has continued to perform well in the UAE, in line with expectations. Total revenue was HK$131 million (2007: HK$34 million), with growth in both the construction (2008: HK$109 million vs. 2007: HK$16 million) and marine plant chartering (2008: HK$22 million vs. 2007: HK$18 million). The operating profit was HK$22 million (2007: HK$1 million). At the year end, the order book of our marine related construction joint venture with Arabian Construction Company stood at a healthy HK$430 million (2007: HK$262 million), of which our share is 50%. The enquiry levels continue to be high despite the current difficult economic conditions. We will continue our strategy of concentrating on infrastructure projects and as a result, we believe we are well placed to capitalize on the opportunities that exist in the current environment.

On the construction sector, the Emirates Steel Factory – Steel Integration Project in Abu Dhabi was completed in March and compliment letters were received from the client – for quality, safety, and early completion of works. The Construction of the F2 Jetty in Fujairah F2 IWPP, which was secured in June 2008, was also completed. At Al Raha, a beach extension and sea wall were also secured in the year, and were 88% complete by the year end. By the year end, the marine works at Fujairah F2 Power Plant were 34% complete; this was behind the base programme mainly due to the re-alignment by the client of the subsea fuel pipeline. At the year end, a quay wall for the Marasy Development in Abu Dhabi was secured. Currently, the results of several submitted tenders are outstanding and we believe that further success is imminent.

On plant chartering, the applications for ship classification status are progressing very well. Our semi-submersible barge and two split barges were classified and all our vessels have been now been re-registered under the UAE flag; this will facilitate licensing and operation in the region. During 2008, the utilization of the vessels was well ahead of last year and as a result we decided to strengthen our fleet. Two flat top barges, one derrick barge, one anchor boat and one launch were mobilized from Hong Kong at the year end and the licensing work is currently underway.

PRC

The result of the PRC operations in 2008 was within anticipation, with the exception of securing new construction projects and hence the turnover.

The Group's Wuxi Qianhui Sewage Treatment Plant performed well in 2008, meeting budgetary requirements. Upgrading works were also completed to meet with the new national discharge standards. As a result, the County Government agreed a revision of the industrial waste water treatment levy. With a steady increase in population, the average inflow increased occasionally peaking at 20,000 tonnes/day towards the end of 2008. It is anticipated the plant will reach its designed capacity during 2009 and as a result the Group may explore the opportunities with the County Government to undertake a second phase extension.

BUSINESS REVIEW AND PROSPECT – continued

PRC – continued

China Railway Tenth Group Third Engineering Co., Ltd., in which the Group has 49% stake, completed the Heliu Highways Service Areas project in 2008. The final account of this project has also been settled. As for the Shaanxi highway project, notwithstanding that the works have been substantially complete for a long time, minor variation orders have been issued, the completion of which will take until mid 2009.

The completion of Phase 1A and 1B of the Royal City Development project in Changzhou was achieved in June 2008. In view of the local construction market, the Group has agreed to dispose of all the Group's 40% stake in Value Ahead Limited for a consideration of RMB9 million. The disposal was completed in November 2008.

Looking forward, the Group considers the business models that we adopted in both the Wuxi Qianhui Sewage Treatment Plant and the associated sewage pipeline networks will yield a better return. Hence, we will focus more of our attention in this market segment in 2009.

Employees and Remuneration Policies

As at 31 December 2008, the Group had a total of 823 employees and total remuneration for the year ended 31 December 2008 was approximately HK$190 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 that of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2008, the Group had liquid assets of HK$55 million (as at 31 December 2007: HK$111 million) comprising held-for-trading investments of HK$18 million (as at 31 December 2007: HK$90 million) and bank balances and cash of HK$37 million (as at 31 December 2007: HK$21 million).

As at 31 December 2008, the Group had a total of interest bearing borrowings of HK$123 million (as at 31 December 2007: HK$154 million) repayable within one year.

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.

FINANCIAL REVIEW – continued

Capital Structure and Gearing

During the year, 1,100,000,000 convertible and non-redeemable preference shares were converted into 110,000,000 ordinary shares.

As at 31 December 2008, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 132 % (as at 31 December 2007: 82%).

Pledge of Assets

As at 31 December 2008, bank deposits amounting to HK$1 million (as at 31 December 2007: HK$2 million) of the Group were pledged to banks for securing banking facilities granted to the Group.

Certain equity securities with market value of HK$9 million (as at 31 December 2007: HK$41 million) were pledged to bank to secure general banking facilities granted to the Group.

The Group has pledged certain motor vehicles with carrying value of HK$347,000 (as at 31 December 2007: HK$626,000) to secure new bank loans granted to the Group.

Contingent Liabilities

	As at 31 December 2008 HK$ million	As at 31 December 2007 HK$ million
Outstanding tender/performance/retention bonds in respect of construction contracts	**116**	110

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, age 56, has been the Chairman of the Company since 23 April 2004 and has been appointed as a member of the Remuneration Committee of the Company since 1 April 2005. He is also the Vice Chairman of Wai Kee Holdings Limited ("Wai Kee") and an Executive Director of Road King Infrastructure Limited ("Road King"), the shares of which are listed on Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). He is also the Chairman of Chai-Na-Ta Corp.. 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 both the Institution of Civil Engineers and The Hong Kong Institution of Engineers and a fellow member of the Institution of Quarrying, the United Kingdom ("UK"). He is also the Honorary Treasurer of Hong Kong Construction Association in 2007 to 2009. He has over 30 years of experience in civil engineering.

CHANG Kam Chuen, Desmond, age 43, 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 currently the Qualified Accountant of the Company and the Financial Controller of the Group. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of 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 68, has been appointed as Non-executive Director of the Company since 9 August 2004 and a member of the Audit Committee since 29 July 2005. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 40 years of experience with contractors in the management, design and construction of a wide variety of civil engineering and building projects in the UK, Asia and Hong Kong. He is a past Vice President of The Hong Kong Construction Association and Chairman of The Civil Engineering Committee. He is also a past Chairman of the Civil Engineering Division of The Hong Kong Institution of Engineers and a past member of the Construction Advisory Board to the Hong Kong Government.

NON-EXECUTIVE DIRECTORS – continued

CHENG Chi Pang, Leslie, age 51, has been appointed as a Non-executive Director of the Company since 9 August 2004 and has also been appointed as a Non-executive Director of Wai Kee since September 2000. Dr. Cheng holds a Bachelor Degree in Business, a Master Degree in Business Administration and a Doctorate Degree of Philosophy in Business Management. Dr. Cheng is an associate member of the Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has over 25 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was Group Financial Controller and Chief Executive of NWS Holdings Limited. He is now the Chairman of the Supervisory Board of The Macao Water Supply Company Limited, the Senior Partner of Leslie Cheng & Co., the Chief Executive Officer of L & E Consultants Limited and an Independent Non-executive Director and Chairman of Audit Committee of China Ting Group Holdings Limited, Fortune Sun (China) Holdings Limited, Nine Dragons Paper (Holdings) Limited and Tianjin Port Development Holdings Limited, the shares of these four companies are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of an international accounting firm.

CHAN Chi Hung, Anthony, age 35, has been appointed as a Non-executive Director of the Company since 4 December 2008. He holds a Bachelor of Science with major in Economics with University of Minnesota. He was the Managing Director of a leading foreign-owned leasing company which has over 38% market share 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 investments portfolio. 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 67, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company, both since 23 April 2004. He has also been appointed as the Chairman of the Remuneration Committee of the Company since 16 February 2005. He is a professional civil and structural engineer. He is also a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is the Chairman of Joseph Chow and Partners Limited, a professional consulting engineers firm. Dr. Chow is the Chairman of the Construction Workers Registration Authority and served as President of The Hong Kong Institution of Engineers from 2001 to 2002 and Chairman of the Hong Kong Engineers' Registration Board from 1996 to 1998. Dr. Chow is a Hon Senior Superintendent of the Auxiliary Police Force. He served in many public services including Chairman of the Hong Kong Examinations Authority, Deputy Council Chairman of Hong Kong Polytechnic University, member of Hospital Authority, Hong Kong Housing Authority and Hong Kong University Court. He is also the Independent Non-executive Chairman of PYI Corporation Limited, an Independent Non-executive Director of Chevalier International Holdings Limited and Road King, and a Non-executive Director of Wheelock Properties Limited, the shares of these four companies are listed on the Main Board of the Stock Exchange.

NG Chi Ming, James, age 65, has been appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company, both since 23 April 2004. He has also been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. He is a Director and the Chief Executive Officer of ENM Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He is a Director of Chinachem Group companies and the former Chairman of the Employers' Federation of Hong Kong. He has over 30 years of experience in the banking industry in Hong Kong and the United States. He was the Chief Executive Officer of First Pacific Bank in Hong Kong and the Chief Executive Officer of United Savings Bank in California.

HO Tai Wai, David, age 60, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company, both since 8 September 2004. He has also been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. Mr. Ho has over 39 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of the UK, the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Ho holds a Master of Business Administration Degree from The Chinese University of Hong Kong.

SENIOR MANAGEMENT

CHEUNG Siu Lun, age 58, is responsible for the Group's building projects in Hong Kong and operation of China market. He is a Director of Kaden Construction Limited ("Kaden"). He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong. He is a member of the Institution of Civil Engineers and a fellow of The Hong Kong Institution of Engineers. He is also a Chartered Engineer of the UK. He has over 35 years of experience in both civil engineering and building construction.

LUI Yau Chun, Paul, age 48, is responsible for the Group's business development and operation in the Middle East. He is a Director and the General Manager (Marine) of Wai Kee (Zens) Construction & Transportation Company Limited ("WKC&T"), a Director of Leader Marine Contractors Limited, and the General Manager of Leader Marine L.L.C. and Leader Marine Cont. L.L.C., both companies registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers. He has over 25 years of experience in civil and marine engineering. He is a member of the Contractors Registration Committee Panel and the Contractors Registration Committee (General Building Contractors and Specialist Contractors) of the Buildings Department, HKSAR.

LIU Sing Pang, Simon, age 47, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director and the General Manager of Kaden, a Director of Leader Civil Engineering Corporation Limited and a Director of WKC&T. He is a Member of the Institution of Structural Engineers. He has over 20 years of experience in civil engineering and building construction. He is a council member of the Hong Kong Construction Association.

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 45 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group together accounted for approximately 83% of the Group's turnover, with the largest customer accounted for 48%, and the five largest suppliers of the Group together represented less than 14% 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 2008 are set out in the consolidated income statement on page 39.

The board of directors of the Company ("Board") does not recommend the payment of dividend for the year ended 31 December 2008 (31 December 2007: nil).

SEGMENT INFORMATION

Details of the segment information are set out in note 7 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 2007 and 2008.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2008 are set out in note 31 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in notes 32 and 33 to the consolidated financial statements.

On 17 October 2008, all the outstanding 1,100,000,000 convertible and non-redeemable preference shares held by Top Horizon Holdings Limited were converted into 110,000,000 ordinary shares of the Company at a conversion price of HK$0.10 pursuant to the terms of convertible and non-redeemable preference shares.

RETIREMENT BENEFITS SCHEME

Details of the Company's pension scheme are set out in note 42 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)*	
Chang Kam Chuen, Desmond	(appointed on 1 June 2008)
Yu Sai Yen *(Vice Chairman)*	(resigned on 15 March 2009)

Non-executive Directors

David Howard Gem	
Cheng Chi Pang, Leslie	
Chan Chi Hung, Anthony	(appointed on 4 December 2008)
Lam Wai Hon, Patrick	(resigned on 24 October 2008)

Independent Non-executive Directors

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS – continued

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

In accordance with Bye-law 94 of the Company's Bye-laws, Mr. Chang Kam Chuen, Desmond and Mr. Chan Chi Hung, Anthony shall retire from office at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Bye-law 111 of the Company's Bye-laws, Dr. Cheng Chi Pang, Leslie and Mr. Ng Chi Ming, James shall retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

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

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

The Company has received from each Independent Non-executive Director an annual confirmation of his independence during the year ended 31 December 2008 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. The Company considers all the Independent Non-executive Directors to be independent.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS

As at 31 December 2008, the interests (including short positions) of the Directors and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers in the Listing Rules, were as follows:

(I) The Company

Interests in shares

Name of Director	Capacity/ Nature of interest	Number of Shares held Long position	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Personal	107,581,421 (Note 1)	–	11.55
Cheng Chi Pang, Leslie	Personal	1,170,000 (Note 1)	–	0.13 (Note 2)
Chan Chi Hung, Anthony	Personal	14,000,000 (Note 1)	–	1.50

Notes:

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

2. As at 31 December 2008, the number of the issued shares of the Company was 931,408,494. Accordingly, the percentage has been adjusted.

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	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Wai Kee Holdings Limited ("Wai Kee")	Personal	185,057,078 (Note 1)	–	23.33
		Personal	770,000 (Note 2)	–	0.10
	Wai Kee (Zens) Construction & Transportation Company Limited	Personal	2,000,000 (Note 1)	–	10.00
	Wai Luen Stone Products Limited	Personal	30,000 (Note 1)	–	37.50
David Howard Gem	Wai Kee	Personal	500,000 (Note 1)	–	0.06
Cheng Chi Pang, Leslie	Wai Kee	Personal	500,000 (Note 1)	–	0.06
		Personal	330,000 (Note 2)	–	0.04

Notes:

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

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

DIRECTORS' INTERESTS – continued

(II) Associated corporations – continued

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

Associated Corporation

The share option scheme was adopted by Wai Kee at the annual general meeting held on 18 September 2002 ("Wai Kee Share Option Scheme") to comply with Chapter 17 of the Listing Rules. As at 31 December 2008, Wai Kee has granted 1,100,000 share options under the Wai Kee Share Option Scheme to two Directors of the Company, no share options of which were exercised.

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

				Number of share options				
Name	Date of grant	Exercisable period	Exercise price (HK$)	Balance at 1.1.2008	Granted during the year	Exercised during the year	Lapsed during the year	Balance at 31.12.2008
Zen Wei Peu, Derek	9 July 2007	9 July 2008 to 8 July 2011	3.39	770,000	–	–	–	770,000
Cheng Chi Pang, Leslie	9 July 2007	9 July 2008 to 8 July 2011	3.39	330,000	–	–	–	330,000
Total				1,100,000	–	–	–	1,100,000

SHARE OPTIONS – continued

Associated Corporation – continued

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTEREST

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

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

Note:

Mr. Lam Wai Hon, Patrick resigned as a Non-executive Director of the Company on 24 October 2008.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Number of Shares held and percentage of shareholding			
		Long position		Short position	
Name of substantial Shareholder	**Capacity/Nature of interest**	**Number of Shares**	**%**	**Number of Shares**	**%**
Top Horizon Holdings Limited ("Top Horizon") (Note (a))	Personal/ Beneficiary	476,561,270 (Note)	51.17	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note (b))	Personal/ Beneficiary	5	0.00	–	–
	Corporate	476,561,270 (Note)	51.17	–	–
Wai Kee (Note (c))	Corporate	476,561,275 (Note)	51.17	–	–
Vast Earn Group Limited (Note (d))	Personal/ Beneficiary	50,823,040 (Note)	5.46	–	–
NWS Service Management Limited (incorporated in the British Virgin Islands) (Note (e))	Corporate	50,823,040 (Note)	5.46	–	–
NWS Service Management Limited (incorporated in the Cayman Islands) (Note (f))	Corporate	50,823,040 (Note)	5.46	–	–
NWS Holdings Limited (Note (g))	Corporate	50,823,040 (Note)	5.46	–	–

SUBSTANTIAL SHAREHOLDERS – continued

		Number of Shares held and percentage of shareholding			
		Long position		Short position	
Name of substantial Shareholder	**Capacity/Nature of interest**	**Number of Shares**	**%**	**Number of Shares**	**%**
New World Development Company Limited (Note (h))	Corporate	50,823,040 (Note)	5.46	–	–
Chow Tai Fook Enterprises Limited (Note (i))	Corporate	50,823,040 (Note)	5.46	–	–
Centennial Success Limited (Note (j))	Corporate	50,823,040 (Note)	5.46	–	–
Cheng Yu Tung Family (Holdings) Limited (Note (k))	Corporate	50,823,040 (Note)	5.46	–	–

Notes:

Long position in the Shares

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

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

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

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

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

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

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

SUBSTANTIAL SHAREHOLDERS – continued

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

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

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

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

Save as disclosed above, as at 31 December 2008, no other person (other than Directors or chief executives of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTION

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

The Company, through its subsidiary, entered into the Consultancy Agreement ("the Agreement") with Gateway (wholly owned by Mr. Gem). Pursuant to the Agreement, the Group agreed to engage Gateway through Mr. Gem to provide consultancy services on normal commercial terms and at a consultancy fee of HK$99,000 per month (including traveling and accommodation) together with a discretionary additional fee (not exceeding HK$10,000 per month) for two years commencing 1 June 2008. The services include, but are not limited to, strategic planning, marketing, project performance review, tendering, training and other services requested by the Group from time to time.

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

As Mr. Gem is a connected person of the Company, the transaction constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. As each of the percentage ratios (other than the profits ratio) was less than 2.5%, the transaction was only subject to the reporting and announcement requirements and was exempt from the independent shareholders' approval requirement. Details of the transaction were disclosed in the announcement dated 2 June 2008.

CONNECTED TRANSACTION – continued

2. Disposal of 40% Interest in Value Ahead Limited ("Value Ahead")

On 3 November 2008, an agreement (the "Agreement") was entered into between Innocity International Limited ("Innocity", an indirect wholly-owned subsidiary of the Company) and RK Investment (Changzhou) Limited ("RK Investment", an indirect wholly-owned subsidiary of Road King Infrastructure Limited ("Road King", an associate of Wai Kee)), whereby RK Investment agreed to purchase 40% of the issued share capital of Value Ahead and the shareholders' loan from Innocity at an aggregate consideration of HK$9,424,584. The transaction was completed on 24 November 2008.

The transaction enables the Company to realize its investment in the PRC property construction business at its original investment cost, so that it may focus on its civil engineering business.

As Innocity was an associate of Wai Kee, a substantial shareholder of the Company, which owned approximately 60.83% of the Company and approximately 38.47% of the Road King on the date of the Agreement, the transaction constituted a connected transaction for the Company under Rule 14A.13(1)(a) of the Listing Rules but was exempt from independent shareholders' approval pursuant to Rule 14A.32 of the Listing Rules.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

Loan facility of HK$40,000,000

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

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

Loan Facility of Euro5,000,000

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

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES – continued

Loan Facility of Euro5,000,000 – continued

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

Save as disclosed above, as at 31 December 2008, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$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 2008 and up to 2 April 2009, 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

2 April 2009

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the code provisions of the Code on Corporate Governance Practices ("the Code") set out in Appendix 14 of the Listing Rules as its own code and has complied with the Code throughout the year ended 31 December 2008 except for the deviation from code provision A.4.1 of the Code in respect of the service term of the Directors.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2008.

BOARD OF DIRECTORS

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

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

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

BOARD OF DIRECTORS – continued

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

Directors	Attendance/ Number of meetings
Executive Directors:	
Zen Wei Peu, Derek *(Chairman)*	5/5
Yu Sai Yen *(Vice Chairman)*	5/5
Chang Kam Chuen, Desmond	3/5 (Note 1)
Non-executive Directors :	
David Howard Gem	3/5
Cheng Chi Pang, Leslie	5/5
Lam Wai Hon, Patrick	4/5 (Note 2)
Chan Chi Hung, Anthony	0/5 (Note 3)
Independent Non-executive Directors :	
Chow Ming Kuen, Joseph	5/5
Ng Chi Ming, James	4/5
Ho Tai Wai, David	5/5

Notes:

1. Two of the five board meetings were held before the appointment of Mr. Chang Kam Chuen, Desmond as an Executive Director on 1 June 2008.

2. One of the five board meetings was held after the resignation of Mr. Lam Wai Hon, Patrick as a Non-executive Director on 24 October 2008.

3. All of the five board meetings were held before the appointment of Mr. Chan Chi Hung, Anthony as a Non-executive Director on 4 December 2008.

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

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

CHAIRMAN AND VICE CHAIRMAN

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

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

NON-EXECUTIVE DIRECTORS

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

REMUNERATION OF DIRECTORS

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

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

REMUNERATION OF DIRECTORS – continued

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

Remuneration Committee Members	Attendance/ Number of meetings
Chow Ming Kuen, Joseph	2/2
Ng Chi Ming, James	1/2
Ho Tai Wai, David	2/2
Zen Wei Peu, Derek	2/2

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

NOMINATION OF DIRECTORS

The appointment and removal of Directors is considered and determined by the Board of Directors. The Board shall consider every proposed director's knowledge, experience and his/her possible contribution to the Company before his/her appointment as the Company's Director. During the year, Messrs. Chang Kam Chuen, Desmond and Chan Chi Hung, Anthony were appointed as an Executive Director and a Non-executive Director respectively with unanimous approval by the Board. The Directors shall retire from office in general meeting in accordance with the Bye-laws but shall be eligible for re-election at the general meeting.

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

NOMINATION OF DIRECTORS – continued

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

AUDIT COMMITTEE

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

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

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

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

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

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

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

6. to review internal control systems;

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

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

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

AUDIT COMMITTEE – continued

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

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

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

AUDITOR'S REMUNERATION

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

Services rendered	Fees paid/payable HK$
Audit services	2,148,000
Non-audit services (including tax advice)	296,000
	2,444,000

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

The statement of the external auditor of the Company, Messrs. Deloitte Touche Tohamstu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on page 37.

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

INTERNAL CONTROL

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

1. Integrity of financial and operational information;

2. Effectiveness and efficiency of operations;

3. Safeguarding of assets;

4. Quality of information flow; and

5. Compliance with laws, regulations, and contracts.

INTERNAL CONTROL – continued

The internal audit team carried out its mission by:

1. identifying and prioritising potential business risks;
2. performing risk-based audits;
3. evaluating effectiveness and compliance with internal policies and procedures;
4. analysing causes for errors and irregularities found;
5. recommending good internal controls to prevent unintentional mistakes, discourage fraudulent acts, and promote operational efficiency and ethical standards;
6. performing follow up procedures on corrective actions;
7. appraising the soundness and adequacy of various departments' ongoing maintenance of internal controls;
8. providing consulting and advisory services on control and related matters;
9. conducting independent investigation of situations raised by whistleblowers, if any; and
10. maintaining open communication with the chairman, audit committee, and audit management.

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

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

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

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

- Considerate Contractor Site Awards (Bronze) presented by the Works Branch of Development Bureau, Hong Kong SAR Government

- 2 no. Considerate Contractor Site Awards (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government

- Outstanding Environmental Management & Performance Grand Award (Merit) presented by the Works Branch of Development Bureau, Hong Kong SAR Government

- Hong Kong Award for Industries – Certificate of Merit in Environmental Performance presented by the Business Environment Council and Trade and Industry Department, Hong Kong SAR Government

- Construction Sites Housekeeping Award (Meritorious) presented by the Drainage Services Department, Hong Kong SAR Government

- 4 no. HKCA Environmental Merit Award presented by the Hong Kong Construction Association

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

- 2007/2008 Operations Division Partnering Award for Civil Works Project (Safety Classification 1) presented by MTR Corporation Limited

- Grand Award of the HKCA Innovative Environmental Award presented by the Hong Kong Construction Association

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT – continued

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

COMPLIANCE

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

Deloitte.
德勤

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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 39 to 106, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's loss 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
2 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Revenue	6	**751,130**	798,475
Cost of sales		**(783,611)**	(777,640)
Gross (loss) profit		**(32,481)**	20,835
Other income	8	**36,221**	13,566
(Decrease) increase in fair value of held-for-trading investments		**(49,325)**	36,677
Administrative expenses		**(72,578)**	(66,189)
Finance costs	9	**(7,323)**	(12,214)
Share of results of jointly controlled entities		**26,572**	29,045
Share of results of associates		**1,457**	134
(Loss) profit before tax	10	**(97,457)**	21,854
Income tax credit (expense)	13	**142**	(6,781)
(Loss) profit for the year		**(97,315)**	15,073
Attributable to:			
Equity holders of the Company		**(93,624)**	14,644
Minority interests		**(3,691)**	429
		(97,315)	15,073
Dividends:			
To the holders of 2% convertible preference shares		**175**	249
		HK cents	HK cents
(Loss) earnings per share	14		
– Basic		**(11.1)**	1.8
– Diluted		**N/A**	1.6

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**27,149**	10,731
Intangible assets	16	**32,858**	32,858
Goodwill	17	**30,554**	30,554
Interests in jointly controlled entities	19	**64,754**	84,756
Available-for-sale investments	20	**–**	–
Other financial assets	21	**47,505**	47,320
		202,820	206,219
Current assets			
Amounts due from customers for contract work	22	**151,821**	80,322
Finance lease receivables	23	**–**	271
Debtors, deposits and prepayments	24	**210,981**	270,339
Amounts due from associates	25	**6,886**	105
Amounts due from jointly controlled entities	25	**16,848**	10,492
Held-for-trading investments	26	**17,680**	89,763
Tax recoverable		**1,239**	2,673
Pledged bank deposits	27	**1,013**	2,058
Bank balances and cash	27	**37,453**	21,191
		443,921	477,214
Current liabilities			
Amounts due to customers for contract work	22	**75,867**	19,889
Creditors and accrued charges	28	**258,798**	223,170
Amount due to an intermediate holding company	29	**5,817**	5,536
Amounts due to fellow subsidiaries	29	**1,287**	1,116
Amount due to an associate	36	**6,632**	7,682
Amounts due to jointly controlled entities	29	**14,270**	3,974
Amounts due to minority shareholders	29	**3,094**	3,094
Tax liabilities		**1,139**	12,450
Ordinary share dividend payable to an intermediate holding company		**22,000**	22,000
Preference share dividend payable to immediate holding company		**1,224**	1,049
Loans from a director	30	**10,000**	–
Bank loans – due within one year	31	**108,604**	151,608
Bank overdrafts, secured	27	**4,749**	2,110
		513,481	453,678
Net current (liabilities) assets		**(69,560)**	23,536
Total assets less current liabilities		**133,260**	229,755

Consolidated Balance Sheet

At 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000 (Restated)
Capital and reserves			
Ordinary share capital	32	**93,141**	82,141
Convertible preference share capital	33	**–**	11,000
Reserves		**(6,124)**	84,209
Equity attributable to equity holders of the Company		**87,017**	177,350
Minority interests		**5,943**	9,516
Total equity		**92,960**	186,866
Non-current liabilities			
Deferred tax liabilities	34	**5,750**	5,750
Obligations in excess of interests in associates	35	**20,453**	21,910
Amount due to an associate	36	**9,800**	10,687
Amount due to a jointly controlled entity	37	**4,067**	4,067
Bank loans – due after one year	31	**230**	475
		40,300	42,889
		133,260	229,755

The consolidated financial statements on pages 39 to 106 were approved and authorised for issue by the Board of Directors on 2 April 2009 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 2008

	Attributable to equity holders of the Company								
	Ordinary share capital HK$'000	**Convertible preference share capital** HK$'000	**Translation reserve** HK$'000	**Special reserve** HK$'000 (Note)	**Asset revaluation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total equity** HK$'000
At 1 January 2007 as originally stated	78,141	15,000	(936)	(63,141)	4,290	119,512	152,866	9,291	162,157
Effect of change in accounting policies (Note 3)	–	–	–	–	–	2,754	2,754	121	2,875
At 1 January 2007 as restated	78,141	15,000	(936)	(63,141)	4,290	122,266	155,620	9,412	165,032
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	7,335	–	–	–	7,335	338	7,673
Profit for the year (as restated)	–	–	–	–	–	14,644	14,644	429	15,073
Total recognised income and expenses for the year (as restated)	–	–	7,335	–	–	14,644	21,979	767	22,746
Sub-total	78,141	15,000	6,399	(63,141)	4,290	136,910	177,599	10,179	187,778
Conversion of convertible preference shares	4,000	(4,000)	–	–	–	–	–	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(663)	(663)
Dividends	–	–	–	–	–	(249)	(249)	–	(249)
At 31 December 2007 (as restated)	82,141	11,000	6,399	(63,141)	4,290	136,661	177,350	9,516	186,866
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	4,720	–	–	–	4,720	118	4,838
Realised on disposal of a jointly controlled entity	–	–	(1,254)	–	–	–	(1,254)	–	(1,254)
Loss for the year	–	–	–	–	–	(93,624)	(93,624)	(3,691)	(97,315)
Total recognised income and expenses for the year	–	–	3,466	–	–	(93,624)	(90,158)	(3,573)	(93,731)
Sub-total	82,141	11,000	9,865	(63,141)	4,290	43,037	87,192	5,943	93,135
Conversion of convertible preference shares	11,000	(11,000)	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	(175)	(175)	–	(175)
At 31 December 2008	93,141	–	9,865	(63,141)	4,290	42,862	87,017	5,943	92,960

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000 (Restated)
Operating activities		
(Loss) profit before tax	**(97,457)**	21,854
Adjustments for:		
Finance costs	**7,323**	12,214
Depreciation	**6,899**	5,411
Bad debts written off	**–**	1,500
Gain on disposal of property, plant and equipment	**(11,676)**	(192)
Loss on disposal of a jointly controlled entity	**1,972**	–
Dividends from held-for-trading investments	**(2,507)**	(2,909)
Decrease (increase) in fair value of held-for-trading investments	**49,325**	(36,677)
Share of results of jointly controlled entities	**(26,572)**	(29,045)
Share of results of associates	**(1,457)**	(134)
Interest on bank deposits	**(72)**	(493)
Interest on other receivables	**(408)**	(1,367)
Interest on other financial assets	**(1,853)**	(1,750)
Interest on finance lease receivables	**(7)**	(28)
Operating cash flows before movements in working capital	**(76,490)**	(31,616)
Decrease (increase) in other financial assets	**1,577**	(598)
Increase in amounts due from customers for contract work	**(71,414)**	(22,602)
Decrease (increase) in debtors, deposits and prepayments	**60,153**	(47,931)
Decrease in held-for-trading investments	**22,758**	41,161
Increase in amounts due to customers for contract work	**55,978**	18,795
Increase in creditors and accrued charges	**35,969**	13,519
Cash from (used in) operations	**28,531**	(29,272)
Interest on bank deposits received	**72**	493
Interest on other receivables received	**408**	1,367
Interest on other financial assets	**1,853**	1,750
Income taxes (paid) refunded	**(9,735)**	10,060
Net cash from (used in) operating activities	**21,129**	(15,602)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000 (Restated)
Investing activities		
Dividends from held-for-trading investments	**2,507**	2,909
Distribution of profits from jointly controlled entities	**35,267**	22,981
Decrease in pledged bank deposits	**1,045**	4,634
Repayment from (advances to) jointly controlled entities	**3,940**	(21,739)
Proceeds from disposal of available-for-sale investments	**–**	3,127
(Advances to) repayment from associates	**(17,138)**	197
Repayment of finance lease receivables	**271**	389
Proceeds from disposal of property, plant and equipment	**12,195**	260
Proceeds from disposal of a jointly controlled entity	**9,422**	–
Interest on finance lease receivables received	**7**	28
Capital contribution to jointly controlled entity	**–**	(12,197)
Purchases of property, plant and equipment	**(23,902)**	(5,959)
Acquisition of additional interest in a subsidiary	**–**	(663)
Net cash from (used in) investing activities	**23,614**	(6,033)
Financing activities		
Repayment of bank loans	**(62,039)**	(37,293)
Advances from an associate	**8,200**	–
Interest paid	**(7,103)**	(12,045)
New bank loans raised	**18,790**	28,106
Loans from a director	**10,000**	–
Advances from an intermediate holding company	**281**	1,892
Advances from (repayment to) fellow subsidiaries	**171**	(647)
Advances from minority shareholders	**–**	300
Net cash used in financing activities	**(31,700)**	(19,687)
Net increase (decrease) in cash and cash equivalents	**13,043**	(41,322)
Cash and cash equivalents at the beginning of the year	**19,081**	59,365
Effect of foreign exchange rate changes, net	**580**	1,038
Cash and cash equivalents at the end of the year, represented by	**32,704**	19,081
Bank balances and cash	**37,453**	21,191
Bank overdrafts	**(4,749)**	(2,110)
	32,704	19,081

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 (the "Directors") 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" to the annual report.

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

The Company acts as an investment holding company. The principal activities of its significant subsidiaries, associates and jointly controlled entities are set out in notes 45, 35 and 19 respectively.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$69,560,000 as at 31 December 2008 and the gross and net losses incurred during the year. As at 31 December 2008, the Group has bank borrowings totaling HK$113,583,000 of which HK$113,353,000 was classified as current liabilities. Bank loans amounting to HK$16,734,000 were classified as current liabilities as the terms of the bank loans were breached as disclosed in note 31. Subsequent to the balance sheet date, the Group received waiver letters from the banks which confirmed that the banks agreed to waive the right to demand for immediate repayment and accordingly the relevant loans will be repaid according to the original terms of repayment. In addition, the Directors believe that the revolving bank loans can be renewed on an annual basis. Besides, the Group has undrawn short-term borrowing facilities of HK$7,361,000 at the balance sheet date which will be subjected to review in year 2009 in which the Directors are of the opinion that there are good track records and relationship with banks which would enhance the Group's ability on renewing the borrowing facilities.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued

Subsequent to the balance sheet date, with respect to the amount due to an intermediate holding company of HK$5,817,000, ordinary share dividend payable to an intermediate holding company of HK$22,000,000 and loans from a director of HK$10,000,000, the Group has obtained confirmations from the respective parties that they will not demand for repayment within the next twelve months from the balance sheet date.

The Directors are of the opinion that, taking into account of the internally generated funds of the Group and the presently available banking facilities, the Group has sufficient working capital for its present requirements for the next twelve months from the balance sheet date. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs, other than HK(IFRIC) – Int 12 "Service Concession Arrangements" ("HK(IFRIC) – Int 12"), had no material effect on the results or financial position of the Group for the current or prior accounting period.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Service concession arrangements

In the current year, the Group has applied HK(IFRIC) – Int 12 which is effective for annual periods beginning on or after 1 January 2008. HK(IFRIC) – Int 12 provides guidance on the accounting by the operator of a service concession arrangement which involves the provision of public sector services.

The Group as sewage treatment operator has access to operate a plant to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract.

In prior years, the Group's sewage treatment plant, which includes construction costs incurred on the sewage treatment plant work which entitles the Group to obtain the operating rights of sewage treatment for specified concession period, was recorded as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. Depreciation of the sewage treatment plant was calculated to write off their cost, over its estimated useful life or the remaining concession period, whichever was shorter, commencing from the date when it is available for intended use of the sewage treatment on a straight line basis.

In accordance with HK(IFRIC) – Int 12 , sewage treatment plant within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the plant, this interpretation requires the operator to account for its revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the plant and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets" to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service or a financial asset in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement". In addition, the operator accounts for the services in relation to the operation of the plant in accordance with HKAS 18 "Revenue".

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Service concession arrangements – continued

In the current year, the Group applied HK(IFRIC) – Int 12 retrospectively and the financial impact on application of HK(IFRIC) – Int 12 is summarised below.

Summary of the effects of the application of new interpretation

The effect of the application of HK(IFRIC) – Int 12 changes in accounting policies described above on the results for the current and prior year by line items are as follows:

	2008	2007
	HK$'000	HK$'000
Decrease in revenue	**(3,863)**	(1,411)
Increase in interest income on other financial assets	**1,853**	1,750
Decrease in depreciation	**2,901**	3,861
Decrease in (loss)/increase in profit for the year	**891**	4,200

Analysis of decrease in loss/increase in profit for the current and prior year by line items presented according to their function:

	2008	2007
	HK$'000	HK$'000
Decrease in revenue	**(3,863)**	(1,411)
Decrease in cost of sales	**1,807**	3,008
Increase in other income	**1,853**	1,750
Decrease in administrative expenses	**1,094**	853
Decrease in (loss)/increase in profit for the year	**891**	4,200

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Summary of the effects of the application of new interpretation – continued

The effect of the application of HK(IFRIC) – Int 12 as at 31 December 2007 is summarised below:

	As at 31 December 2007 (originally stated) HK$'000	Adjustments HK$'000	As at 31 December 2007 (restated) HK$'000
Balance sheet items			
Property, plant and equipment	50,976	(40,245)	10,731
Other financial assets	–	47,320	47,320
Total effect on assets	50,976	7,075	58,051
Retained profits	129,875	6,786	136,661
Minority interests	9,227	289	9,516
Total effect on equity	139,102	7,075	146,177

The effects of the application of HK(IFRIC) – Int 12 on the Group's equity at 1 January 2007 are summarised below:

	As at 1 January 2007 (originally stated) HK$'000	Adjustments HK$'000	As at 1 January 2007 (restated) HK$'000
Retained profits	119,512	2,754	122,266
Minority interests	9,291	121	9,412
Total effect on equity	128,803	2,875	131,678

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Summary of the effects of the application of new interpretation – continued

The effect of the application of HK(IFRIC) – Int 12 on the Group's basic and diluted earnings per share for the prior year are as follows:

Impact on basic earnings per share

	2007
	HK cent
Before adjustments	1.3
Adjustments arising from application of HK(IFRIC) – Int 12	0.5
Restated	1.8

Impact on diluted earnings per share

	2007
	HK cent
Before adjustments	1.1
Adjustments arising from application of HK(IFRIC) – Int 12	0.5
Restated	1.6

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods ending on or after 30 June 2009
5 Effective for annual periods beginning on or after 1 July 2008
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors anticipate that the application of the other new or revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

4. 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 HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

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

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

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

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

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

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

Goodwill arising on acquisition on or after 1 January 2005

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

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

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

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

Investments in associates

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in associates – continued

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

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

Jointly controlled entities

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

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

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.

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

Revenue recognition

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Construction contract

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

When the outcome of a construction contract cannot be estimated reliably, 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 accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

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

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

Construction contracts

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Construction contracts – continued

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

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 as 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 each balance sheet date 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).

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.

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

The Group as lessee

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

Foreign currencies

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets acquired in a business combination

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

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Financial assets at fair value through profit or loss – continued

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Effective interest method

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

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

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

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

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, amounts due from associates and jointly controlled entities 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, an associate or a jointly controlled entity is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

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

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition

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

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

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors 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.

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern basis

Although the Group had net current liabilities at the balance sheet date and incurred gross and net losses during the year, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash and adequate committed lines of funding from reputable financial institutions to meet the Group's liquidity requirements in the short and long term.

Key sources of estimation uncertainty

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

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 balance sheet at 31 December 2008 at HK$32,858,000 (2007: HK$32,858,000), requires an estimation of the revenues generated 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 management to reconsider its assumptions regarding future market share and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate is applied in order to calculate the present value. As at 31 December 2008, the carrying amount of goodwill is HK$30,554,000 (2007: HK$30,554,000). Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 December 2008, no deferred tax asset has been recognised in the Group's consolidated balance sheet in relation to unused tax losses of HK$332,055,000 (2007: HK$264,629,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

Construction contracts

The Group recognised profits and losses from construction contracts, which were derived from the latest available budgets of the construction contracts based on the overall performance of each construction contract and management's best estimates and 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, management regularly reviews the progress of the contracts and the estimated construction income and costs.

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

6. REVENUE

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

	2008	2007
	HK$'000	HK$'000
		(Restated)
Group revenue	**751,130**	798,475
Share of revenue of jointly controlled entities		
Hong Kong	**94,068**	307,811
Middle East	**108,606**	15,752
Other regions in the People's Republic of China (the "PRC")	**11,738**	162,889
	965,542	1,284,927

7. SEGMENTAL INFORMATION

(a) Business segments

More than 90% of the Group's turnover, losses (profits) and assets were derived from civil engineering work and, therefore, no business segments are presented.

(b) Geographical segments

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

Year ended 31 December 2008

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results					
Segment group revenue	709,309	13,007	6,538	22,276	751,130
Segment results	(25,401)	(38,083)	(2,814)	(3,603)	(69,901)
Unallocated net corporate expenses					(1,444)
Dividends from held-for-trading investments					2,507
Decrease in fair value of held-for-trading investments					(49,325)
Share of results of jointly controlled entities	3,534	–	(2,119)	25,157	26,572
Share of results of associates	1,457	–	–	–	1,457
Finance costs					(7,323)
Loss before tax					(97,457)
Income tax credit					142
Loss for the year					(97,315)

7. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

Year ended 31 December 2007 (restated)

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results					
Segment group revenue	737,904	24,150	18,383	18,038	798,475
Segment results	(29,884)	(913)	209	(344)	(30,932)
Unallocated net corporate expenses					(3,765)
Dividends from held-for-trading investments					2,909
Increase in fair value of held-for-trading investments					36,677
Share of results of jointly controlled entities	29,097	–	(1,629)	1,577	29,045
Share of results of associates	134	–	–	–	134
Finance costs					(12,214)
Profit before tax					21,854
Income tax expense					(6,781)
Profit for the year					15,073

7. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

At 31 December 2008

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	366,571	2,102	90,680	34,668	494,021
Interests in jointly controlled entities	163	(697)	42,020	23,268	64,754
Unallocated corporate assets					87,966
Total consolidated assets					646,741
Liabilities					
Segment liabilities	343,584	10,277	17,530	6,470	377,861
Obligations in excess of interests in associates	20,453	–	–	–	20,453
Unallocated corporate liabilities					155,467
Total consolidated liabilities					553,781

For the year ended 31 December 2008

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Additions to property, plant and equipment	119	366	99	23,318	23,902
Depreciation of property, plant and equipment	594	4	182	6,119	6,899
Gain on disposal of property, plant and equipment	11,676	–	–	–	11,676

7. SEGMENTAL INFORMATION – continued

(b) Geographical segments – continued

At 31 December 2007 (restated)

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets					
Segment assets	285,409	7,298	133,864	25,696	452,267
Interests in jointly controlled entities	26,679	1,047	55,453	1,577	84,756
Unallocated corporate assets					146,410
Total consolidated assets					683,433
Liabilities					
Segment liabilities	203,910	5,849	63,061	2,302	275,122
Obligations in excess of interests in associates	21,910	–	–	–	21,910
Unallocated corporate liabilities					199,535
Total consolidated liabilities					496,567

For the year ended 31 December 2007 (restated)

	Hong Kong HK$'000	Taiwan HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Additions to property, plant and equipment	1,308	139	–	4,512	5,959
Depreciation of property, plant and equipment	1,113	11	192	4,095	5,411
Gain on disposal of property, plant and equipment	192	–	–	–	192
Write-back of allowance for bad and doubtful debt	133	–	–	–	133
Bad debts written off	–	1,500	–	–	1,500

8. OTHER INCOME

	2008 HK$'000	2007 HK$'000 (Restated)
Other income includes:		
Dividends from held-for-trading investments	**2,507**	2,909
Gain on disposal of property, plant and equipment, net	**11,676**	192
Interest on bank deposits	**72**	493
Interest on finance lease receivables	**7**	28
Interest on other receivables	**408**	1,367
Interest on other financial assets	**1,853**	1,750
Service income from associates for secretarial and management services rendered (note)	**19,000**	1,800
Technical consultancy income	**–**	4,484
Write-back of allowance for bad and doubtful debts	**–**	133

Note: During the year ended 31 December 2008, the Group received a management fee income of HK$19 million from an associate which represent its share of the associate's income arising from write back of provisions.

9. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**6,719**	11,904
Interest bearing amount due to an associate	**141**	141
Imputed interest expense on non-current interest free amount due to an associate	**220**	169
Interest bearing loans from a director	**243**	–
	7,323	12,214

10. (LOSS) PROFIT BEFORE TAX

	2008 HK$'000	2007 HK$'000 (Restated)
(Loss) profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	**1,910**	1,432
Underprovision in prior years	**288**	376
	2,198	1,808
Bad debts written off	**–**	1,500
Depreciation	**6,984**	5,436
Less: Amount attributable to construction contracts	**(85)**	(25)
	6,899	5,411
Hire charges for plant and machinery	**28,216**	29,341
Less: Amount attributable to construction contracts	**(28,216)**	(29,341)
	–	–
Loss on disposal of a jointly controlled entity	**1,972**	–
Net foreign exchange losses	**838**	156
Operating lease rentals in respect of land and buildings	**5,274**	4,166
Less: Amount attributable to construction contracts	**(1,014)**	(450)
	4,260	3,716
Share of income tax credit of jointly controlled entities (included in share of results of jointly controlled entities)	**(20)**	(3,297)
Staff costs:		
Directors' remuneration (note 11)	**6,418**	5,458
Other staff costs	**175,859**	190,625
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$545,000 (2007: HK$394,000)	**7,536**	10,054
	189,813	206,137
Less: Amount attributable to construction contracts	**(146,415)**	(156,507)
	43,398	49,630

11. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the ten (2007: eight) directors were as follows:

	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2008				
Zen Wei Peu, Derek	–	2,238	12	2,250
Yu Sai Yen	–	2,348	228	2,576
Chang Kam Chuen, Desmond	–	724	70	794
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	–	–	–	–
Lam Wai Hon, Patrick	73	–	–	73
	798	5,310	310	6,418
Year ended 31 December 2007				
Zen Wei Peu, Derek	–	2,088	12	2,100
Yu Sai Yen	–	2,268	220	2,488
David Howard Gem	145	–	–	145
Cheng Chi Pang, Leslie	145	–	–	145
Lam Wai Hon, Patrick	145	–	–	145
Chow Ming Kuen, Joseph	145	–	–	145
Ng Chi Ming, James	145	–	–	145
Ho Tai Wai, David	145	–	–	145
	870	4,356	232	5,458

No director waived any emoluments for both years ended 31 December 2008 and 2007.

12. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two (2007: two) directors, details of whose emoluments are set out in note 11 above. The emoluments of the remaining three (2007: three) highest paid individuals were as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and other benefits	**5,531**	4,976
Retirement benefits scheme contributions	**320**	297
	5,851	5,273

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**1**	1

13. INCOME TAX (CREDIT) EXPENSE

	2008	2007
	HK$'000	HK$'000
Current tax:		
Hong Kong	**22**	6,781
(Over)underprovision in prior years:		
Hong Kong	**(167)**	–
Other jurisdictions	**3**	–
	(142)	6,781

13. INCOME TAX (CREDIT) EXPENSE – continued

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

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

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

	2008	2007
	HK$'000	HK$'000 (Restated)
(Loss) profit before tax	**(97,457)**	21,854
Taxation at the applicable rate of 16.5% (2007: 17.5%)	**(16,080)**	3,825
Tax effect of share of results of associates	**(240)**	(23)
Tax effect of share of results of jointly controlled entities	**(4,384)**	(5,083)
Tax effect of expenses that are not deductible in determining taxable profit	**9,552**	1,223
Tax effect of unrecognised tax losses	**15,175**	11,489
Tax effect of income that is not taxable in determining taxable profit	**(526)**	(1,174)
Overprovision in prior years	**(164)**	–
Tax effect of utilisation of tax losses previously not recognised	**(4,050)**	(3,047)
Others	**575**	(429)
Income tax (credit) expense for the year	**(142)**	6,781

14. (LOSS) EARNINGS PER SHARE

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

	2008 HK$'000	2007 HK$'000 (Restated)
(Loss) profit for the year attributable to the equity holders of the Company	**(93,624)**	14,644
Dividends on convertible preference share capital	**(175)**	(249)
(Loss) earnings for the purpose of basic (loss) earnings per ordinary share	**(93,799)**	14,395
Effect of dilutive potential ordinary shares:		
Dividends on convertible preference share capital	**175**	249
(Loss) earnings for the purpose of diluted (loss) earnings per ordinary share	**(93,624)**	14,644

	Number of shares	
	’000	’000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per ordinary share	**844,312**	806,833
Effect of dilutive potential ordinary shares:		
Convertible preference share capital	**87,096**	124,575
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per ordinary share	**931,408**	931,408

No diluted loss per ordinary share for the year ended 31 December 2008 is presented as the exercise of the potential dilutive ordinary shares would result in a reduction in loss per ordinary share for the year ended 31 December 2008.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Property and plant under construction HK$'000	Total HK$'000
COST							
At 1 January 2007, as originally stated	7,677	14,457	21,090	5,221	73,052	41,079	162,576
Effects of changes in accounting policies	–	–	–	–	–	(41,079)	(41,079)
At 1 January 2007 as restated	7,677	14,457	21,090	5,221	73,052	–	121,497
Exchange realignment	–	13	49	42	–	–	104
Additions	–	117	869	774	4,199	–	5,959
Disposals	–	–	–	–	(300)	–	(300)
At 31 December 2007 (restated)	7,677	14,587	22,008	6,037	76,951	–	127,260
Exchange realignment	–	(12)	16	15	–	–	19
Additions	–	348	223	34	23,297	–	23,902
Disposals	–	(449)	–	(208)	(17,601)	–	(18,258)
At 31 December 2008	**7,677**	**14,474**	**22,247**	**5,878**	**82,647**	**–**	**132,923**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2007	7,675	14,355	20,221	4,694	64,324	–	111,269
Exchange realignment	–	13	27	16	–	–	56
Provided for the year (restated)	2	122	522	281	4,509	–	5,436
Eliminated on disposals	–	–	–	–	(232)	–	(232)
At 31 December 2007 (restated)	7,677	14,490	20,770	4,991	68,601	–	116,529
Exchange realignment	–	(9)	5	4	–	–	–
Provided for the year	–	54	522	337	6,071	–	6,984
Eliminated on disposals	–	(61)	–	(77)	(17,601)	–	(17,739)
At 31 December 2008	**7,677**	**14,474**	**21,297**	**5,255**	**57,071**	**–**	**105,774**
CARRYING VALUES							
At 31 December 2008	**–**	**–**	**950**	**623**	**25,576**	**–**	**27,149**
At 31 December 2007 (restated)	–	97	1,238	1,046	8,350	–	10,731

15. PROPERTY, PLANT AND EQUIPMENT – continued

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

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

The Group has pledged certain motor vehicles with a carrying value of HK$347,000 (2007: HK$626,000) to secure bank loans.

16. INTANGIBLE ASSETS

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

The construction licenses are granted by the Works Branch, 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 intangible assets are disclosed in note 18.

17. GOODWILL

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

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

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

For the purpose of impairment testing of intangible asset, intangible asset with indefinite useful lives set out in note 16 have been allocated to the CGU of the subsidiary acquired in 2005, which holds the construction licences granted by the Works Branch, 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 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 15% (2007: 10%). Goodwill and intangible assets are expected to generated cash flows for an indefinite period of time. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008 **HK$'000**	2007 HK$'000
Cost of investment in unlisted jointly controlled entities	**44,090**	53,484
Share of post-acquisition profits, net of dividends received	**20,664**	31,272
	64,754	84,756

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

At 31 December 2008 and 2007, the Group had interests in the following principal jointly controlled entities:

Name of jointly controlled entity	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group %	Principal activities
ACC-Leader Joint Venture	Unincorporated	Middle East	50	Civil engineering
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated (note 1)	PRC	49	Civil engineering
Hip Hing – Leader JV Limited	Incorporated	Hong Kong	$33^1/_3$	Civil engineering
Kaden-ATAL Joint Venture	Unincorporated	Hong Kong	50	Civil engineering
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated (note 1)	PRC	51 (note 2)	Road construction

Notes:

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

2. 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 significant joint venture partner. Therefore, this entity is classified as jointly controlled entities.

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

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES – continued

The summarised financial information in respect of the Group's 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

	2008	2007
	HK$'000	HK$'000
Revenue	**214,412**	486,452
Other income	**886**	4,657
Total revenue	**215,298**	491,109
Total expenses	**(188,746)**	(465,361)
Profit before tax	**26,552**	25,748
Income tax credit	**20**	3,297
Profit for the year	**26,572**	29,045

Share of assets and liabilities attributable to the Group

	2008	2007
	HK$'000	HK$'000
Non-current assets	**15,465**	25,319
Current assets	**184,384**	317,871
Current liabilities	**(135,095)**	(253,816)
Non-current liabilities	**–**	(4,618)
Net assets	**64,754**	84,756

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	HK$'000
Unlisted equity securities, at cost	**800**	800
Less: Impairment loss recognised	**(800)**	(800)
	–	–

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

21. OTHER FINANCIAL ASSETS

The 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 and is granted with 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 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 has been put into operation commencing from 2007.

The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised using the percentage of completion method.

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 a financial assets which carrying effective interest rate of 3.69% per annum and repayable over the service concession period of 30 years.

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

	2008 HK$'000	2007 HK$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses	**3,760,089**	4,607,649
Less: Progress billings	**(3,684,135)**	(4,547,216)
	75,954	60,433
Represented by:		
Due from customers included in current assets	**151,821**	80,322
Due to customers included in current liabilities	**(75,867)**	(19,889)
	75,954	60,433

23. FINANCE LEASE RECEIVABLES

	Minimum lease payments		**Present value of minimum lease payments**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Finance lease receivables comprise:				
Within one year	**–**	278	**–**	271
Less: Unearned finance income	**–**	(7)	**–**	–
Present value of minimum lease payments receivables	**–**	271	**–**	271

23. FINANCE LEASE RECEIVABLES – continued

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

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

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

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

24. DEBTORS, DEPOSITS AND PREPAYMENTS

	2008	2007
	HK$'000	HK$'000
Trade debtors analysed by age:		
0 to 60 days	**114,910**	183,815
61 to 90 days	**387**	–
Over 90 days	**15,218**	–
	130,515	183,815
Retention receivables	**43,388**	32,608
Other debtors, deposits and prepayments	**37,078**	53,916
	210,981	270,339
Retention receivables		
Due within one year	**13,041**	19,658
Due more than one year	**30,347**	12,950
	43,388	32,608

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.

24. DEBTORS, DEPOSITS AND PREPAYMENTS – continued

Included in the Group's trade debtors are debtors with a carrying amount of HK$15,605,000 (2007: nil) which are past due over at the reporting date. As there has not been a significant change in credit quality, the amounts are still considered recoverable. In 2007, the Group has written off bad debts of HK$1,500,000 which in severe financial difficulties. The Group does not hold any collateral over trade debtors.

Ageing of trade and bills receivables which are past due but not impaired

	2008 HK$'000	2007 HK$'000
61 to 90 days	**387**	–
Over 90 days	**15,218**	–
	15,605	–

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 debtors that are neither past due nor impaired have the best credit quality with reference to respective settlement history.

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is high as the major customer of the Group is HKSAR Government. The Directors consider that HKSAR Government is financially sound and accordingly no provision is required.

25. AMOUNTS DUE FROM ASSOCIATES/JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, interest-free and recoverable on demand. As at 31 December 2007, an advance to a jointly controlled entity of HK$3,650,000 carried interest at 1.75% over the one month Hong Kong Interbank Offered Rate ("HIBOR").

26. HELD-FOR-TRADING INVESTMENTS

	2008 HK$'000	2007 HK$'000
Held-for-trading investments stated at fair value:		
– Equity securities listed in Hong Kong	**17,668**	89,722
– Equity securities listed in the United States of America	**12**	41
	17,680	89,763

At 31 December 2008, certain equity securities with market value of HK$8,670,000 (2007: HK$41,400,000) were pledged to a bank to secure general banking facilities granted to the Group.

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

27. PLEDGED BANK DEPOSITS/BANK BALANCES/BANK OVERDRAFTS

Bank deposits of the Group amounting to HK$1,013,000 (2007: HK$2,058,000) were pledged to banks for securing the banking facilities granted to the Group. The pledged bank deposits carry fixed interest ranging from 0.01% to 1.07% (2007: 1.35% to 2.26%) per annum.

Bank balances carry average market interest rate ranging from 0.01% to 1.07% (2007: 1.35% to 2.26%) per annum.

Bank overdrafts carry interest at market rates which range from 6.5% to 8.1% (2007: 8.25% to 9.25%).

28. CREDITORS AND ACCRUED CHARGES

	2008 HK$'000	2007 HK$'000
Trade creditors analysed by age:		
0 to 60 days	**64,110**	53,899
61 to 90 days	**5,835**	4,364
Over 90 days	**17,184**	7,812
	87,129	66,075
Retention payables	**39,122**	32,852
Accrued project costs	**112,189**	100,043
Other creditors and accrued charges	**20,358**	24,200
	258,798	223,170
Retention payables		
Repayable within one year	**19,584**	19,723
Repayable more than one year	**19,538**	13,129
	39,122	32,852

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

29. AMOUNT(S) DUE TO AN INTERMEDIATE HOLDING COMPANY/ FELLOW SUBSIDIARIES/JOINTLY CONTROLLED ENTITIES/MINORITY SHAREHOLDERS

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

30. LOANS FROM A DIRECTOR

The loans are unsecured, carry interest at HIBOR plus 1.75% per annum and are repayable within one year.

31. BANK LOANS

	2008	2007
	HK$'000	HK$'000
The maturity of bank loans is as follows:		
Within one year	**91,870**	151,608
In the second year	**9,079**	185
In the third to fifth year inclusive	**7,885**	290
	108,834	152,083
Less: Amount due within one year shown under current liabilities	**(108,604)**	(151,608)
Amount due after one year	**230**	475
Secured	**55,385**	97,348
Unsecured	**53,449**	54,735
	108,834	152,083

At the balance sheet date, bank loans include HK$385,000 (2007: HK$644,000) fixed rate borrowings which carry interest ranging from 8.52% to 9.39% (2007: 8.52% to 9.39%) per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 1.8% to 7.9% (2007: 4.85% to 7.90%) per annum. Total of HK$32,446,000 bank loans (2007: HK$54,735,000) carry an interest which is repriced every six months. Remaining bank loans carry interest which is repriced every month.

31. BANK LOANS – continued

During the year, in respect of bank loans with carrying amounts of HK$32,446,000 as at 31 December 2008, the Group breached certain of the terms of the bank loans, which are primarily related to the debt-equity ratio of the Group. According to HKAS 1 "Presentation of financial statements", since the banks have not agreed to waive their right to demand immediate payment as at the balance sheet date, the non-current portion of the bank loans amounting to HK$16,734,000 has been classified as a current liability in the consolidated balance sheet as at 31 December 2008. The Group has subsequently obtained written consent from the banks to waive their rights to demand immediate repayment.

As at the balance sheet date, the Group has undrawn borrowing facilities of HK$7,361,000 (2007: HK$56,549,000).

Certain bank loans are secured by share charges over the entire issue share capital of certain wholly-owned subsidiaries of the Company and personal guarantees given by a director of the Company.

32. ORDINARY SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 January 2007, 31 December 2007 and 2008	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 January 2007	781,408,494	78,141
Conversion of non-redeemable preference shares	40,000,000	4,000
At 31 December 2007	821,408,494	82,141
Conversion of non-redeemable preference shares	110,000,000	11,000
At 31 December 2008	931,408,494	93,141

33. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2007, 31 December 2007 and 2008	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
Convertible preference shares of HK$0.01 each		
At 1 January 2007	1,500,000,000	15,000
Conversion of non-redeemable preference shares	(400,000,000)	(4,000)
At 31 December 2007	1,100,000,000	11,000
Conversion of non-redeemable preference shares	(1,100,000,000)	(11,000)
At 31 December 2008	–	–

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

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

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

34. DEFERRED TAX LIABILITIES

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

	Fair value of intangible assets
	HK$'000
At 1 January 2007 and 31 December 2007 and 2008	5,750

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

	2008	2007
	HK$'000	HK$'000
Tax losses:		
To expire in 2012	**2,355**	5,627
To expire in 2013	**4,298**	–
Carried forward indefinitely	**325,402**	259,002
	332,055	264,629

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

For the year ended 31 December 2008

35. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2008	2007
	HK$'000	HK$'000
Cost of investment in unlisted associates	**4**	4
Share of post-acquisition losses (note)	**(20,457)**	(21,914)
	(20,453)	(21,910)

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 2008 and 2007 are as follows:

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

35. 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:

	2008 HK$'000	2007 HK$'000
Total assets	**65,747**	102,069
Total liabilities	**(106,653)**	(145,889)
Net liabilities	**(40,906)**	(43,820)
Group's share of net liabilities of associates	**(20,453)**	(21,910)
Revenue	**61,541**	25,729
Profit for the year	**2,913**	270
Group's share of results of associates for the year	**1,457**	134

36. AMOUNT DUE TO AN ASSOCIATE

The current amount due to an associate is unsecured, interest-free and repayable on demand except for an advance from an associate of HK$3,500,000 (2007: HK$3,500,000) which carries interest at one month HIBOR.

The non-current amount due to an associate is unsecured, interest-free and has no fixed repayment terms. The associate has agreed not to demand repayment within twelve months from the balance sheet date and the balance is therefore shown as non-current liabilities. The non-current amount is carried at amortised cost using effective interest of 5.4% (2007: 5.3%) per annum.

37. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the bank loans and loans from a director disclosed in notes 31 and 30, respectively and equity attributable to equity holders of the Company, comprising issued capital and reserves.

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

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

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
		(Restated)
Financial assets		
Held-for-trading investments	**17,680**	89,763
Loans and receivables (including cash and cash equivalents)	**312,112**	345,536
Available-for-sale financial assets	**–**	–
	329,792	435,299
Financial liabilities		
Amortised cost	**450,572**	436,568

39. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies

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

Market risk

(i) Currency risk

Certain bank loans amounting to HK$15,647,000 are denominated in United States dollars which are different from the functional currency of the group entity (i.e. Hong Kong dollars) and therefore the Group is exposed to currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency should the need arise.

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

(ii) Interest rate risk

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

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank loans, loans from a director and amount due to an associate (see notes 31 and 30 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

39. 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 and loans from a director.

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would decrease/increase by HK$1,232,000 (2007: profit would decrease/increase by HK$1,570,000). 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 decreased during the current year mainly due to the decrease in variable rate bank loans.

(iii) Other price risks

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

Other price sensitivity analysis

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

If the prices of the respective equity instruments had been 5% higher/lower while all other variables were held constant, the loss for the year ended 31 December 2008 would increase/decrease by HK$884,000 (2007: profit would increase/decrease by HK$4,488,000) as a result of the changes in fair value of held-for-trading investments.

The Group's sensitivity to available-for-sale investments has not changed significantly from 2007.

39. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as the major customer of the Group is HKSAR Government. The Directors considered that HKSAR Government is financially sound and accordingly no provision is required.

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

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

Liquidity risk

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

39. FINANCIAL INSTRUMENTS – continued

(b) Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity and interest risk tables

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

	Weighted average effective interest rate	Repayable on demand or 3 months or less	3-6 months	6-12 months	1-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008								
Non-interest bearing	–	290,464	932	2,188	24,869	18,633	337,086	326,988
Fixed interest rate instruments	8.74	44	44	88	241	–	417	385
Variable interest rate instruments	3.28	40,337	8,072	77,019	–	–	125,428	123,199
		330,845	9,048	79,295	25,110	18,633	462,931	450,572

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

(c) Fair value

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

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

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

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

40. CONTINGENT LIABILITIES

	2008 HK$'000	2007 HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**116,095**	110,055

41. COMMITMENTS

Operating lease commitments

Lessee

At 31 December 2008, 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:

	2008 HK$'000	2007 HK$'000
Within one year	**6,684**	2,599
In the second to fifth years inclusive	**8,320**	243
	15,004	2,842

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.

42. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to the consolidated income statement of HK$7,846,000 (2007: HK$10,286,000) represents contributions paid or payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

43. RELATED PARTY TRANSACTIONS

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

	2008	2007
	HK$'000	HK$'000
Immediate holding company		
Corporate guarantee fee expense	**418**	456
Associates		
Interest expense	**141**	141
Secretarial and management service income	**19,000**	1,800
Jointly controlled entities		
Interest income	**66**	164
Director		
Interest expense	**243**	–

43. RELATED PARTY TRANSACTIONS – continued

During the year, the Group disposed of its entire interest in a jointly controlled entity to a partner of the jointly controlled entity at a consideration of HK$9,422,000.

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

Compensation of key management personnel

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

	2008	2007
	HK$'000	HK$'000
Short-term benefits	**13,828**	12,998
Post-employment benefits	**857**	785
	14,685	13,783

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 2008, the director provided personal guarantees amounting to HK$12,500,000 to a bank to secure the general banking facilities granted to the Group.

At 31 December 2008, Wai Kee provided corporate guarantees amounting to HK$54,547,000 (2007: HK$54,547,000) to several banks to secure the general banking facilities granted to the Group.

At 31 December 2008 and 31 December 2007, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

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

For the year ended 31 December 2008

44. SUMMARISED BALANCE SHEET OF THE COMPANY

	2008 HK$'000	2007 HK$'000
Investment in a subsidiary	**60,000**	60,000
Amounts due from subsidiaries	**25,210**	35,215
Other current assets	**291**	90
Other current liabilities	**(4,099)**	(4,997)
Loans from a director	**(10,000)**	–
Bank loans	**(22,447)**	(39,735)
	48,955	50,573
Share capital	**93,141**	82,141
Convertible preference share capital	**–**	11,000
Reserves	**(44,186)**	(42,568)
	48,955	50,573

45. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Allied Wise Limited	Hong Kong	Hong Kong	HK$2	100	Investment holding
Amazing Reward Group Limited	British Virgin Islands ("BVI")	Hong Kong	US$1,000,000	100	Investment holding
Hsin Lung Construction Company Limited	Taiwan	Taiwan	NT$175,000,000	100	Civil engineering
Kaden Construction Limited	United Kingdom	Hong Kong	GBP9,400,000	100	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares	100	Civil engineering
			HK$24,000,000 Non-voting deferred shares	100	
Leader Construction Company Limited	Hong Kong	Hong Kong	HK$2	100	Provision of administrative and management services to group companies
Leader Construction Overseas Limited	Hong Kong	Hong Kong	HK$20	100	Investment holding
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 cont. relating buildings, harbour contracts
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	Hong Kong	HK$10,000,000	100	Civil engineering

45. PRINCIPAL SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK$2 Ordinary shares HK$14,800,000 Non-voting deferred shares HK$5,200,000 Non-voting deferred shares (note 1)	100 100 –	Civil engineering
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK$1	100	Provision of secretarial and nominee services
Wuxi Qianhui Sewage Treatment Co., Ltd. (note 2)	PRC	PRC	US$5,400,000	95.6	Sewage treatment
惠記環保工程(上海)有限公司 (note 3)	PRC	PRC	US$800,000	100	Environmental engineering

Notes:

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

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

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

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

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

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

RESULTS

	Year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000 (restated)	**2008** **HK$'000**
Group revenue	368,731	544,960	605,927	798,475	**751,130**
Share of revenue jointly controlled entities	372,031	151,407	383,525	486,452	**214,412**
	740,762	696,367	989,452	1,284,927	**965,542**
Group revenue	368,731	544,960	605,927	798,475	**751,130**
Operating (loss) profit					
Company and subsidiaries	(97,708)	(30,428)	12,985	4,889	**(118,163)**
Share of results of jointly controlled entities	173,423	63,451	26,860	29,045	**26,572**
Share of results of associates	904	1,655	(15)	134	**1,457**
Amortisation of goodwill of subsidiaries	(1,421)	–	–	–	**–**
Finance costs	(195)	(3,163)	(6,746)	(12,214)	**(7,323)**
Profit (loss) before tax	75,003	31,515	33,084	21,854	**(97,457)**
Income tax (expense) credit	(19,444)	207	(25,691)	(6,781)	**142**
Profit (loss) for the year	55,559	31,722	7,393	15,073	**(97,315)**

FINANCIAL POSITION

	As at 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	411,046	521,269	654,617	683,433	**646,741**
Total liabilities	(294,489)	(367,014)	(492,460)	(496,567)	**(553,781)**
	116,557	154,255	162,157	186,866	**92,960**

2007 figure have been adjusted to reflect the change in accounting policies on the application of HK(IFRIC) – Int 12 "Service Concession Arrangements" effective from 1 January 2008.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zen Wei Peu, Derek *(Chairman)*
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
David Howard Gem

REMUNERATION COMMITTEE

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

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
CITIC Ka Wah Bank Limited
Hang Seng Bank Limited

COMPANY SECRETARY

Chang Kam Chuen, Desmond

QUALIFIED ACCOUNTANT

Chang Kam Chuen, Desmond

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Bermuda

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Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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