Build King

Build King Holdings Limited

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

Annual Report 2010

Contents

Financial Highlights

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity* per share	13%
Equity	HK$227 million
Equity per share	HK18 cents
Group revenue and share of revenue of jointly controlled entities	HK$915 million
Profit attributable to owners of the Company	HK$29 million

* equity refers to equity attributable to owners of the Company

FINAL DIVIDEND

The board of directors ("Board") does not recommend the payment of a final dividend for the year ended 31 December 2010.

Chairman's Letter

The Group's gain in equity during 2010 was HK$76 million whilst the equity per share increased by 13% to HK18 cents.

The year 2010 has turned out to be less satisfactory than I predicted last year. Our turnover was HK$915 million, below our targeted HK$1.5 billion and our construction profit was HK$20 million, a drop of 56% as compared with 2009. In the UAE, the result was below expectations with fierce competition and limited opportunities. Whilst in the PRC our sewage plant at Wuxi operated satisfactorily, the results were less than anticipated due to the fact that we were unable to negotiate a raise in the levy.

Regrettably, the only thing I got right was my prediction that last year's investment gain was a one off event that would not be repeated. And so it turned out. All in all, 2010 was disappointing for you as well as for me.

The positive sign is that at the time of writing, our order book has risen from HK$2.4 billion to HK$3.9 billion, an indication that the turnover in the coming years should increase. Most of the recent contracts awarded are with reasonable prices.

My medium term target, in say 3-5 years time, is to grow the Group to a HK$3 billion turnover, perhaps with the split between Civil Engineering and Building in a ratio of 2:1.

BUSINESS ANALYSIS

Construction

The core business of our Group is construction which represented 95% of our turnover in 2010 of which 90% was in Hong Kong.

The below average result of last year of the Civil Engineering Section in Hong Kong was mainly due to delays on two major joint venture projects. The startup periods proved to be longer than expected due to stringent operating environments as well as lack of senior management input to recognise problems in time. These led to delays as well as erosion of profit. Steps have been taken to remedy these problems and we hope to gradually bring these projects back on track during the coming year.

As noted above, our current order book has increased significantly and I expect this trend will continue. The overall spending by the Government on infrastructure projects is expected to rise from HK$23 billion in 2009 to around HK$60 billion in 2011. It is not surprising that all the players in this industry will benefit from this enlarged pie. Although I should be cautious in my predictions, I think that it is safe to say that with the contracts we have currently on hand, the turnover in 2011 will be significantly more than last year. The obvious benefit will be the spreading of our overhead costs over a larger turnover, and the ability to reap a slightly higher net profit as a result. As I have mentioned before, our short term aim is a turnover per year of HK$1.5 billion to HK$2 billion, and I am predicting (again!) that this can finally be reached in 2011.

However the increased workload is not without danger. The construction industry in Hong Kong is short of site staff as well as skilled labour. As more contracts are awarded, the successful tenderers who are short of staff naturally look for staff with other contractors by offering them higher remuneration. Last year we had to raise our pay three times just to retain staff and I fear the situation this year may be even worse.

BUSINESS ANALYSIS (Continued)

Construction (Continued)

Already we have seen salaries and wages rise sharply, and the construction material cost indices also going up in lockstep. This poses a huge challenge on our cost control. 80% of our contracts are however somewhat protected in having fluctuation clauses whereby the client compensates us in line with the rise in the Government cost indices for labour and material. But for those fixed price contracts on hand, we do suffer. This is also part of the reason for our poor financial performance last year. We try to be extra careful on tenders with fixed price contracts, especially those that will have long construction periods. We try to fix the costs but where this is not possible we allow for future cost escalation as we see it. We also try to assess the additional risk profile for each category of cost by allowing an appropriately higher margin as a result. This is obviously one way to counter the effects, but in the end there is no guarantee that one can assess the cost of inflation accurately.

To address the lack of staff available in the market, we have achieved a certain degree of success during the year by employing staff from nearby regions including Singapore, Malaysia and the Philippines. In the coming year we will also try to recruit from Taiwan and Mainland China. We attempt to make sure that in tendering for any new projects we identify at least the core staff that are available to run the project should we be successful, so as to ensure that we do not over-extend ourselves.

The turnover of our Building Section last year was HK$87 million. This was lower than we budgeted but we do expect to see the turnover increase this year, although it is too soon to predict the percentage achievable as this will depend on contracts to be awarded going forward. I feel comfortable with the team and the way we are handling our current projects. I hope you all have the same confidence in our building team as I have, and the patience to wait for it to bear fruit. There is still a lot to be desired, but we are heading in the right direction and in time the result will tell.

Overall here in Hong Kong, although the challenges will never cease, given the current project opportunities and our position in the market, I believe that in the coming 5-7 years most of the contractors in Hong Kong will benefit from the booming market and that Build King will be no exception.

In the UAE, our result was below expectations and our net profit was HK$7 million. Due to the lack of work in Dubai and the resultant fierce competition in Abu Dhabi and elsewhere, margins have tightened. We were nevertheless successful in securing two significant projects - one in Abu Dhabi and the other in Fujairah. Our reputation in the UAE is good and we expect marine projects in Abu Dhabi to continue for the next decade. However we will closely monitor the situation and make adjustment to the allocation of resources between Hong Kong and UAE accordingly.

Looking ahead in Hong Kong we expect a busy 5-7 years ahead but we also know that things cannot go on forever at the current high level. As a result, in order to reduce over reliance on Hong Kong market, we have started to explore new opportunities in the nearby region in Asia.

I always have in mind that we need a sustainable and competitive edge over our rivals. Construction is basically a service (at least viewed from the employers' point of view) and most employers tend to award contracts based on price. Nevertheless recently a lot more emphasis is placed on a) the track record of the contractor, b) their performance on recent projects, c) technical capability and d) safety and quality of performance.

BUSINESS ANALYSIS (Continued)

Construction (Continued)

My aim in taking our Group forward are:

1) In terms of track record, we can never match the top tier local contractors nor the major international contractors but with time, we should be able to close some of the gaps. Knowing our limitations we will target those projects where the differences are small.

2) In terms of safety, quality and past performance, we will continue our efforts to perform well. And I have full confidence that we are at par with those big contractors at present and hopefully can even surpass some of them in future.

3) We are strengthening our technical capability at all levels. Hopefully in the near future, we will identify someone to lead our Engineering team.

4) One of the areas where we can excel is to ensure that Build King is an enjoyable place to work. For contractors are nothing but a team of people and we are dealing with the 'knowledge worker' as defined by Peter Drucker. I believe strongly that in addition to being valued and treated equitably, including financially, most people look forward to a) autonomy in their work; b) mastery and c) purpose. If we can devise a culture addressing these issues, we will have an edge over others.

5) Main contractors cannot do all the work by themselves; they rely on help from their subcontractors and suppliers. We will aim to form some 'alliances' or 'strategic partnerships' with identified key subcontractors and suppliers thereby aiming to build trust between us. Although mistakes will be made, in the longer term through working on projects together in this way we can be more competitive and achieve win win results. Eventually I hope to build this trust into our culture and make it part of our competitive edge.

All the above is easier said than done, but I pledge that I will put my personal effort on 4) & 5) in the next few years. Hopefully in the not too distant future I can report the progress we have made.

We have also made some minor investment in construction related businesses but since the turnover and contribution is at present very small, I prefer to give you details when these become material.

Environmental Infrastructure Project

The upgrading of our sewage treatment plant at Wuxi in the PRC from 20,000 tonnes/day to 35,000 tonnes/day was successfully completed in 2010. This was achieved on time and within budget. As at February 2011, we are treating an average of 28,000 tonnes/day and the flow is steadily increasing.

Although last year was profitable, the return was far from satisfactory. The primary reason for this was the local Government's refusal to adjust the charges, although this was provided in the original contract. As mentioned last year I was hoping that an increase would be approved in 2010 but regrettably this was not the case. Recently we have stepped up the pressure and raised the issue to the City Government level and hopefully the matter will be resolved before long.

Despite this setback, I am still of the view that further environmental projects are worth doing, provided they are properly structured with the right price. Our PRC team is continuing the mandate given to them last year to look for similar projects in the region.

BUSINESS ANALYSIS (Continued)

Investment

Last year we made no new purchases and a little selling of our investments. At present the total securities we hold amount to HK$25 million. Our portfolio grew in value by HK$8 million last year. Given that we need to maintain the level of working capital to cater for our increasing business activities, I do not anticipate any major changes in our holding this year. Although I do not have any view on the likely performance of our portfolio this year, in the longer term I am very optimistic of our current holding.

I am pleased to report that our cashflow has improved further during the year. Within this year, I hope to report we have achieved a net positive working capital (i.e. bank loan free). If this happens, we may be in a position to consider adding to the present holding if we can identify good opportunities in the market.

Since I am on the topic of investment, and MPF is a hot topic recently, I would like to chip in some of my advice:

1) Mutual (or MPF) Funds as a whole will not beat the market as 80% of time the funds are trading amongst themselves and hence they are the market. The more trading one makes on average, the lower one's 'return' due to the cost of 'friction' in transaction.

2) Don't place your trust on 'STAR' mutual fund managers! It will take at least 5 years (statistically significant should require 30 years!) to know whether this manager is just 'lucky' or really 'skilled'. As such, you will not know beforehand who is a good fund manager, and yet by the time you can decide based on the results, it is already too late. Even if you can identify a 'good' manager, the fee they charge will wipe off all the edge (or more).

Recently the MPF providers have lowered their fees but, given the amount of money they manage, the fees are still way too high. Most companies (in particular big companies with over 1000 staff) should think of setting up a small operation on behalf of their staff in passive index fund investment. In this way at the very least one can ensure that by the time staff retire, they will have a better outcome than at present where the benefit is mostly wiped out by the providers fees.

CORPORATE GOVERNANCE

Communication with Shareholders

I will continue to 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 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.

Dividend Policy

Some of you may notice that our shareholder's equity has risen to HK$232 million; this is HK$68 million away from the HK$300 million benchmark I have always mentioned. I hope that it will not be too long before a day comes when we will be in a position to consider distributing a small portion of profit to our shareholders. A little more patience please!

CORPORATE GOVERNANCE (Continued)

Appreciation

I would 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

17 March 2011

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Operating Results

During 2010, the total group turnover including our share of jointly controlled entities was HK$915 million, a 12% decrease compared with 2009. The profit for the year stood at HK$28 million – a decrease of 57%. This was made up of HK$20 million (2009: HK$45 million) from construction and HK$8 million (2009: HK$19 million) from the investments in marketable securities.

The decrease in both turnover and profit was mainly due to the temporary reduction of marine projects available in the United Arab Emirates ("UAE") as well as low profit level during the early transitional stage of several construction projects in Hong Kong.

Despite the flourishing civil engineering market in Hong Kong and the award of several new major projects, the turnover in Hong Kong for 2010 was similar to that for 2009. The Hong Kong construction division recorded a loss of HK$3 million compared with a profit of HK$27 million for 2009.

The new projects secured were generally of high contract value with longer contract periods but were still at an early stage of construction during the year and therefore did not contribute meaningful profits. However, the overall gross profit contribution of these new projects is expected to be quite reasonable in the long term. Further, during the year the Group employed substantial overhead resources for tendering activities and in developing future business.

The PRC division recorded a profit of HK$13 million, representing an increase of HK$10 million compared with 2009. This was mainly a result of a one-off gain from the disposal of the Group's 49% equity interest in China Railway Tenth Group Third Engineering Co., Ltd. as well as the finalisation of a long outstanding project. The sewage treatment operation in Wuxi City, which still has 25 years to run, generated a steady net profit of HK$7 million comparable with that for 2009.

As at the date of this report, the aggregate outstanding value of contracts increased to HK$3.9 billion from HK$2.4 billion reported in Annual Report 2009.

Hong Kong

For past few years, we have consistently adopted a tendering strategy focusing on projects with healthy cashflow and sensible profit margin. In tandem with this approach, we are committed to good quality of works and achieving good performance scores. There is ample evidence that these strategies have been successful. Most of the government projects secured during the year were not the lowest tender price but were still awarded to us due to the good performance scores of our major operating companies.

During the year, the civil division secured projects valued at HK$1.5 billion. These included construction of sewage treatment works for the Drainage Services Department on Lamma Island, a package on the Harbour Area Treatment Scheme at North Point and the construction of bus-bus interchanges on Tuen Mun Road for Highways Department. In joint venture with partners we were also awarded a section of the Express Rail Link to China involving twin 2.5km drill and blast running tunnels. Subsequent to the year end we were also awarded part of the Central Wan Chai Bypass over MTR Tsuen Wan Line also in joint venture.

BUSINESS REVIEW AND PROSPECT (Continued)

Hong Kong (Continued)

The building division has gained momentum with three medium sized building projects in hand with a total value of HK$230 million including one for the Architectural Services Department. Since the year end, we have also been awarded several fitting-out contracts in a shopping mall for a prestigious brand name and developer which have commenced smoothly during the year.

The civil projects secured prior to 2010 are all progressing satisfactorily. The design and build contract for infrastructure work in Tseung Kwan O Stage 1 will be substantially complete in the last quarter of 2011. The infrastructure work for the Kai Tak Development is well on program. The challenging project for new Polar Adventure and Thrill Mountain Ride at Ocean Park is also expected to complete within 2011 and to achieve tender budget. The new pedestrian subway linking residential developments to Lai Chi Kok MTR Station has been completed and the final account is expected to be concluded soon. Central Wanchai Bypass at Hong Kong Convention and Exhibition Centre awarded in late 2009 is now picking up fast and is expected to be physically completed in 2014.

We see a buoyant construction market in Hong Kong for at least the coming five to seven years. The major infrastructure projects announced by the Government are being progressively pushed out for tender. Construction of the Express Rail Link and the MTR's West Island Line commenced in 2010. The final contract packages for the Central Wan Chai Bypass will soon be fully let. Looking forward, we will be proactively working on major tenders for the Hong Kong Boundary Crossing Facilities at Airport, and for the MTR's Shatin Central Line and South Island Line.

UAE

As a result of the financial turmoil, the general economy of the region including the UAE has been adversely affected and the civil engineering construction industry has slowed. Our turnover in marine related work was HK$79 million and the profit contribution decreased to HK$7 million from HK$23 million in 2009.

We have concentrated our efforts in Abu Dhabi where the market is not as bad as elsewhere in the Emirates. During 2010, with our partner in the UAE, we managed to win two new projects in Abu Dhabi with a total value of HK$183 million including a marine reclamation package for the new Presidential Palace. The margins of these new projects are still reasonable though lower than in the past. It is pleasing that with our partner in the UAE, we have also been awarded another project on the Fujairah F2 Power Plant for additional shore protection work. We are currently awaiting the client's instruction to commence work. The outstanding value of contracts on hand in UAE is now HK$188 million, most of which will be substantially completed in 2011. We therefore expect the results will significantly improve next year.

Given the financial strength of Abu Dhabi and the continually high global demand for oil, we believe the adverse financial impact is temporary. In the medium term, the planned infrastructure works will eventually be pushed forward. We will continue to tender for marine related projects that suit our appetite as well as looking to expand into other civil engineering. With our partner and our good track record, we are well placed to capitalize on the opportunities that exist in the current environment.

BUSINESS REVIEW AND PROSPECT (Continued)

PRC

The first stage extension of the sewage treatment plant in Wuxi City was completed in 2010. With the expanded capacity of 35,000 tonnes per day, the plant is treating an average of 25,000 tonnes per day but with steadily increasing volumes. It is expected the fee of domestic sewage will also soon be increased in line with inflation in the PRC. We believe that in the long term, the growth in environmental related projects will be significant and we hope to find similar medium sized projects as that at Wuxi in the coming years.

Employees and Remuneration Policies

As at 31 December 2010, the Group had a total of 831 employees and total remuneration for the year ended 31 December 2010 was approximately HK$171 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 2010, the Group had liquid assets of HK$52 million (as at 31 December 2009: HK$46 million) comprising held-for-trading investments of HK$25 million (as at 31 December 2009: HK$25 million) and bank balances and cash of HK$27 million (as at 31 December 2009: HK$21 million).

As at 31 December 2010, the Group had a total of interest bearing borrowings of HK$63 million (as at 31 December 2009: HK$36 million) with following maturity profile:

	At 31 December 2010 HK$'million	At 31 December 2009 HK$'million
Borrowings due within one year	**36**	36
Borrowings due in the second year	**13**	—
Borrowings due in the third to fifth year inclusive	**14**	—
	63	36

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

As at 31 December 2010, total equity was HK$231 million comprising ordinary share capital of HK$124 million, reserves of HK$103 million and non-controlling interests of HK$4 million.

On 10 February 2010, the Company issued 310,469,498 shares at a price of HK$0.15 per share by way of an open offer on the basis of one offer share for every three existing shares pursuant to a circular dated 18 January 2010. Accordingly, the total equity was increased by $45 million.

As at 31 December 2010, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 27% (as at 31 December 2009: 23%).

Pledge of Assets

As at 31 December 2010, bank deposit of the Group amounting to HK$19,000 (as at 31 December 2009: bank deposits of HK$1,815,000) was pledged to a bank for securing banking facilities granted to the Group.

Certain equity securities with market value of HK$21 million (as at 31 December 2009: HK$18 million) were pledged to a bank to secure general banking facilities granted to the Group.

The Group has pledged certain motor vehicles with carrying value of HK$53,000 (as at 31 December 2009: HK$201,000) to secure bank loans granted to the Group.

Contingent Liabilities

	As at 31 December 2010 HK$'million	As at 31 December 2009 HK$'million
Outstanding tender/performance/retention bonds in respect of construction contracts	**201**	151

Directors and Senior Management

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, age 58, 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 both are listed on the 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 the Institution of Civil Engineers and The Hong Kong Institution of Engineers and a fellow member of the Institution of Quarrying, the United Kingdom ("UK"). He is also the Honorary Treasurer of Hong Kong Construction Association from 2009 to 2011. He has over 35 years of experience in civil engineering.

CHANG Kam Chuen, Desmond, age 45, has been appointed as an Executive Director of the Company since 1 June 2008. He has been appointed as the Company Secretary of the Company since 31 May 2005. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of Chartered Institute of Management Accountants, UK. He has over 20 years of experience in accounting profession and financial management. Mr. Chang is responsible for the financial, human resources, administration and secretarial departments of the Group.

NON-EXECUTIVE DIRECTORS

David Howard GEM, age 70, has been appointed as a Non-executive Director of the Company since 9 August 2004. He had been a member of the Audit Committee of the Company since 29 July 2005 and resigned on 12 January 2011. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also a member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 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.

CHENG Chi Pang, Leslie, age 53, has been appointed as a Non-executive Director of the Company since 9 August 2004 and has been appointed as a Non-executive Director of Wai Kee since September 2000. Dr. Cheng holds a Bachelor Degree in Business, a Master Degree in Business Administration, a Master Degree of Laws (Chinese and Comparative Law) and a Doctorate Degree of Philosophy in Business Management. Dr. Cheng is an associate member of The Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, the Australian Society of Certified Practicing Accountants, the Taxation Institute of Hong Kong and a fellow member of Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has over 30 years of experience in auditing, business advisory and financial management. Dr. Cheng joined the New World Group in 1992 and was Group Financial Controller and Chief Executive of NWS Holdings Limited. He is now the Senior Partner of Leslie Cheng & Co., the Chief Executive Officer of L & E Consultants Limited and an Independent Non-executive Director of China Ting Group Holdings Limited, Fortune Sun (China) Holdings Limited, Nine Dragons Paper (Holdings) Limited and Tianjin Port Development Holdings Limited, the shares of these four companies are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of an international accounting firm.

NON-EXECUTIVE DIRECTORS (Continued)

CHAN Chi Hung, Anthony, age 37, has been appointed as a Non-executive Director of the Company since 4 December 2008. He holds a Bachelor of Science Degree with major in Economics with University of Minnesota, and is an alumni of Stanford Graduate School of Business with a certificate of Stanford Executive Program. He was the Managing Director of a leading foreign-owned leasing company in the PRC. His expertise includes structuring of leveraged leasing and cross-broader leasing for overseas-listed State-owned Enterprises. Before his active participation in the financial leasing industry, Mr. Chan was previously the Investment Manager of Springfield Financial Adv. Ltd. in charge of its private equity, fund-of-funds and fixedincome investment portfolios. Prior to that, he was with J.P. Morgan Chase. He is an Executive Director of China Financial Leasing Group Limited, the shares of which are listed on the Main Board on the Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOW Ming Kuen, Joseph, OBE, JP, age 69, 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 an Hon Senior Superintendent of the Auxiliary Police Force. He served in many public services including Chairman of the Hong Kong Examinations Authority, a 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, Harbour Centre Development Limited and Road King, the shares of these four companies are listed on the Main Board of the Stock Exchange.

NG Chi Ming, James, age 67, has been appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company, both since 23 April 2004. He has been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. He has over 30 years of experience in the banking industry in Hong Kong and the United States. He is an Independent Non-executive Director of iOne Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He was a Director and the Chief Executive Officer of ENM Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He was the Chief Executive Officer of First Pacific Bank in Hong Kong and the Chief Executive Officer of United Savings Bank in California. He was also the former Chairman of the Employers' Federation of Hong Kong.

HO Tai Wai, David, age 62, has been appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company since 8 September 2004. He has been appointed as a member of the Remuneration Committee of the Company since 16 February 2005. Mr. Ho has over 40 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of 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. He is also the Independent Non-executive Director, a member of the Audit Committee and the Remuneration Committee of Recruit Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Directors and Senior Management

SENIOR MANAGEMENT

CHEUNG Siu Lun, age 60, is responsible for the Group's business development 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 is a member of the Contractors Registration Committee Panel, the Contractors Registration Committee, the Minor Works Contractors Registration Committee Panel and the Minor Works Contractors Registration Committee of Buildings Department. He has over 35 years of experience in both civil engineering and building construction.

CHOY Hon Ping, age 54, is responsible for the Group's building operation in Hong Kong. He was appointed as a director of Kaden on 2 January 2010. He has over 30 years of experience in building construction in Hong Kong. He is a member of The Hong Kong Institution of Engineers and The Chartered Institute of Building (UK). He has been appointed by The Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) as the "Construction Specialist" since 2006. He was the Building Committee member (1998-2007 and 2010-2011) and Council member of The Hong Kong Construction Association, Limited (2005-2007).

LIU Sing Pang, Simon, age 49, 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 Wai Kee (Zens) Construction & Transportation Company Limited ("WKC&T"). He is a member of the Institution of Structural Engineers and a member of the Hong Kong Institution of Engineer. He is also a Chartered Engineer of the UK. He is a council member of the Hong Kong Construction Association, and a member of the Contractors Registration Committee Panel and the Contractors Registration Committee of Buildings Department. He has over 20 years of experience in civil engineering and building construction.

LUI Yau Chun, Paul, age 50, is responsible for the Group's business development and operation in the Middle East. He is a Director and the General Manager (Marine) of 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 were registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers. He has over 25 years of experience in civil and marine engineering.

TONG Sai Man, Simon, age 63, is a Project Director of the Group. He is currently managing two civil contracts for the Wan Chai Development Phase II – Central – Wan Chai Bypass. He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong and a Master Degree in Engineering Studies from The University of Sydney Australia. He is a member of the Institution of Civil Engineers, United Kingdom, a fellow of The Hong Kong Institution of Engineers and a fellow of The Institution of Engineers, Australia. He is a Registered Professional Engineer (Civil Discipline) in Hong Kong and also a Chartered Engineer of The United Kingdom. He has over 40 years of experience both in civil engineering and building construction.

Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the five largest customers of the Group together accounted for approximately 89% of the Group's turnover, with the largest customer accounted for approximately 42%, and the five largest suppliers of the Group together represented less than 17% 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 2010 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 32 and 33 respectively.

The board of directors of the Company ("Board") does not recommend the payment of dividend for the year ended 31 December 2010 (31 December 2009: nil).

SEGMENTAL INFORMATION

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

RESERVES

Details of movement in the reserves of the Group for the year is set out in the consolidated statement of changes in equity on page 36.

DISTRIBUTABLE RESERVES

There were no distributable reserves available for distribution to the Shareholders as at 31 December 2009 and 2010.

FINANCIAL SUMMARY

A summary of the results and of financial position of the Group for the past five financial years is set out on page 83.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2010 are set out in note 29 to the consolidated financial statements.

SHARE CAPITAL

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

On 10 February 2010, the Company issued 310,469,498 shares at a price of HK$0.15 per share by way of an open offer on the basis of one offer share for every three existing shares pursuant to a circular dated 18 January 2010. Accordingly, the total equity was increased by HK$45 million.

RETIREMENT BENEFITS SCHEMES

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Zen Wei Peu, Derek *(Chairman)*
Chang Kam Chuen, Desmond

Non-executive Directors

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

Independent Non-executive Directors

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

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

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. Zen Wei Peu, Derek, Mr. Chang Kam Chuen, Desmond and Mr. Chan Chi Hung, Anthony 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).

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

The Company has received from each Independent Non-executive Director an annual confirmation of his independence during the year ended 31 December 2010 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 10 to the consolidated financial statements.

DIRECTORS' INTERESTS

As at 31 December 2010, 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	Number of Shares held: Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Personal	123,105,228 (Note)	—	9.91
Chang Kam Chuen, Desmond	Personal	1,000,000 (Note)	—	0.08
David Howard Gem	Personal	500,000 (Note)	—	0.04
Cheng Chi Pang, Leslie	Personal	1,170,000 (Note)	—	0.09

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

DIRECTORS' INTERESTS (Continued)

(II) Associated corporations

Interests in shares

Name of Director	Name of company	Capacity/ Nature of interest	Number of shares held Long position	Short position	Percentage of shareholding (%)
Zen Wei Peu, Derek	Wai Kee Holdings Limited ("Wai Kee")	Personal	185,557,078 (Note 1)	—	23.40
		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
Cheng Chi Pang, Leslie	Wai Kee	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.

Save as disclosed above, as at 31 December 2010, 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 2010, 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 1.1.2010**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Balance at 31.12.2010**
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

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 contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTEREST

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, 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	635,415,033 (Note)	51.17	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note (b))	Corporate	635,415,033 (Note)	51.17	–	–
Wai Kee (Note (c))	Corporate	635,415,033 (Note)	51.17	–	–
Vast Earn Group Limited (Note (d))	Personal/Beneficiary	67,404,052 (Note)	5.43	–	–
NWS Service Management Limited (incorporated in the British Virgin Islands) (Note (e))	Corporate	67,404,052 (Note)	5.43	–	–
NWS Service Management Limited (incorporated in the Cayman Islands) (Note (f))	Corporate	67,404,052 (Note)	5.43	–	–
NWS Holdings Limited (Note (g))	Corporate	67,404,052 (Note)	5.43	–	–
New World Development Company Limited (Note (h))	Corporate	67,404,052 (Note)	5.43	–	–
Chow Tai Fook Enterprises Limited (Note (i))	Corporate	67,404,052 (Note)	5.43	–	–
Centennial Success Limited (Note (j))	Corporate	67,404,052 (Note)	5.43	–	–
Cheng Yu Tung Family (Holdings) Limited (Note (k))	Corporate	67,404,052 (Note)	5.43	–	–

SUBSTANTIAL SHAREHOLDERS (Continued)

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).

(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 2010, no other person (other than Directors or chief executives of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTION

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

The Company, through its subsidiary, entered into the Consultancy Agreement ("the Agreement") with Gateway (wholly owned by Mr. David Howard 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$30,000 per month together with a discretionary additional fee (not exceeding HK$10,000 per month) for two years commencing 1 June 2010.

As the consultancy fee is not exceeding HK$1 million for each of the financial years ending 31 December 2012, it is the de minimis threshold exempt from the reporting, announcement and shareholders' approval requirements.

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 2010.

DISCLOSURES 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.

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.

Revolving Loan Facility of HK$20,000,000

On 26 January 2010, Leader Civil Engineering Corporation Limited ("Leader Civil", a wholly-owned subsidiary of the Company), was granted a one-year term revolving loan facility up to HK$20,000,000 (the "Banking Facility I").

Throughout the life of the Banking Facility I, Wai Kee is required to maintain not less than 50% shareholding in the Company. Accordingly, this disclosure is made pursuant to Rules 13.18 and 13.21 of the Listing Rules.

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

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

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

Term Loan Facility of HK$25,000,000

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

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

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

UPDATE ON DIRECTORS' INFORMATION PURSUANT TO RULES 13.51B(1) OF THE LISTING RULES

The annual salary of Mr. Chang Kam Chuen, Desmond, an Executive Director of the Company, has been revised from HK$1.38 million to HK$1.45 million with effect from 1 January 2011.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$4,000.

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 2010 and up to 17 March 2011, 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

17 March 2011

Corporate Governance Report

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 2010 except for the deviations in respect of the separate roles of the chairman and chief executive officer under code provision A.2.1 of the Code and the service term of the Directors under code provision A.4.1 of the Code.

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 2010.

BOARD OF DIRECTORS

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

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

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

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
Chang Kam Chuen, Desmond	5/5
Non-executive Directors:	
David Howard Gem	1/5
Cheng Chi Pang, Leslie	5/5
Chan Chi Hung, Anthony	5/5
Independent Non-executive Directors:	
Chow Ming Kuen, Joseph	4/5
Ng Chi Ming, James	3/5
Ho Tai Wai, David	5/5

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

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

CHAIRMAN AND VICE CHAIRMAN

The Company does not at present have any officer with the title "Chief Executive Officer" ("CEO"). The duties of CEO were previously carried out by the former Vice Chairman and Executive Director. Following his resignation on 15 March 2009, the duties of CEO have been taken up by the Chairman of the Board, Mr. Zen Wei Peu, Derek. In addition to his responsibilities as Chairman overseeing the function of the Board and formulating overall strategies and polices of the Company, Mr. Zen has taken up the management of the Group's business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business. This constitutes a deviation from code provision A.2.1 of the Code.

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

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 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.

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	1/2
Ng Chi Ming, James	2/2
Ho Tai Wai, David	2/2
Zen Wei Peu, Derek	2/2

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

NOMINATION OF DIRECTORS

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

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 (Note), 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.

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

Attendance/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.

Note: Mr. David Howard Gem resigned as a member of the Audit Committee on 12 January 2011.

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	1,375,000
Non-audit services (including tax advice)	935,000
	2,310,000

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 31.

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 the commitment, the Group continues to be accredited under the relevant international standards; namely: ISO9001:2008, OHSAS18001:2007 and ISO14001:2004.

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT (Continued)

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

- Considerate Contractors Site Award Scheme (Merit Award) presented by Development Bureau, Hong Kong SAR Government
- Construction Site Safety Award 2010 (Merit Award) presented by Civil Engineering and Development Department, Hong Kong SAR Government
- HKCA Safety Merit Award presented by The Hong Kong Construction Association
- HKCA Innovative Environmental Award presented by The Hong Kong Construction Association
- 3 numbers of HKCA Environmental Merit Award presented by The Hong Kong Construction Association
- Hong Kong Awards for Environmental Excellence "Class of Excellence" Wastewi$e Label presented by Environmental Protection Department, Hong Kong SAR Government

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

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

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

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

COMPLIANCE

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

Independent Auditor's Report

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

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

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

We have audited the consolidated financial statements of Build King Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 82, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of The 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 about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**722,396**	822,072
Cost of sales		**(664,550)**	(742,916)
Gross profit		**57,846**	79,156
Other income	7	**24,540**	3,865
Increase in fair value of held-for-trading investments		**6,717**	17,295
Administrative expenses		**(89,377)**	(67,805)
Finance costs	8	**(1,710)**	(3,774)
Share of results of jointly controlled entities		**30,039**	37,869
Share of results of associates		**(188)**	1,709
Profit before tax	9	**27,867**	68,315
Income tax expense	12	**(322)**	(4,053)
Profit for the year		**27,545**	64,262
Profit for the year attributable to:			
Owners of the Company		**29,152**	64,262
Non-controlling interests		**(1,607)**	—
		27,545	64,262
		HK cents	HK cents (restated)
Earnings per share	13		
— Basic		**2.4**	6.3

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Profit for the year	**27,545**	64,262
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**2,749**	(535)
Reclassification adjustment of exchange differences upon disposal of a jointly controlled entity	**(4,156)**	—
Reclassification adjustment of exchange differences upon disposal of a subsidiary	**3,439**	—
Other comprehensive income (expense) for the year	**2,032**	(535)
Total comprehensive income for the year	**29,577**	63,727
Total comprehensive income attributable to:		
Owners of the Company	**31,090**	63,718
Non-controlling interests	**(1,513)**	9
	29,577	63,727

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	14	**28,448**	22,076
Intangible assets	15	**65,826**	32,858
Goodwill	16	**30,554**	30,554
Interests in jointly controlled entities	18	**61,272**	89,286
Available-for-sale investments	19	**—**	—
Other financial asset	20	**52,381**	51,520
		238,481	226,294
Current assets			
Amounts due from customers for contract work	21	**66,493**	99,057
Debtors, deposits and prepayments	22	**256,840**	202,562
Amounts due from fellow subsidiaries	23	**631**	—
Amounts due from associates	23	**7,072**	6,573
Amounts due from jointly controlled entities	23	**17,035**	2,170
Held-for-trading investments	24	**24,915**	24,693
Pledged bank deposit	25	**19**	1,815
Bank balances and cash	25	**26,812**	20,687
		399,817	357,557
Current liabilities			
Amounts due to customers for contract work	21	**30,373**	35,358
Creditors and accrued charges	26	**247,836**	250,011
Amount due to an intermediate holding company	27	**14,065**	7,229
Amounts due to fellow subsidiaries	27	**—**	8,138
Amount due to an associate	34	**8,842**	7,738
Amounts due to jointly controlled entities	27	**2,782**	16,745
Amounts due to non-controlling shareholders	27	**3,094**	3,094
Tax liabilities		**193**	2,253
Ordinary share dividend payable to an intermediate holding company		**—**	22,000
Preference share dividend payable to immediate holding company		**—**	1,224
Loans from a director	28	**—**	10,000
Bank loans — due within one year	29	**36,350**	25,798
		343,535	389,588
Net current assets (liabilities)		**56,282**	(32,031)
Total assets less current liabilities		**294,763**	194,263

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	**2010** HK$'000	2009 HK$'000
Capital and reserves			
Ordinary share capital	30	**124,188**	93,141
Reserves		**102,870**	57,594
Equity attributable to owners of the Company		**227,058**	150,735
Non-controlling interests		**4,439**	5,952
Total equity		**231,497**	156,687
Non-current liabilities			
Deferred tax liabilities	32	**5,750**	5,750
Obligations in excess of interests in associates	33	**18,932**	18,744
Amount due to an associate	34	**8,172**	8,961
Amount due to a jointly controlled entity	35	**4,067**	4,067
Bank loans — due after one year	29	**26,345**	54
		63,266	37,576
		294,763	194,263

The consolidated financial statements on pages 32 to 82 were approved and authorised for issue by the Board of Directors on 17 March 2011 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 2010

	Ordinary share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Special reserve HK$'000 (Note)	Asset revaluation reserve HK$'000	Retained profits HK$'000	Equity attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2009	93,141	–	9,865	(63,141)	4,290	42,862	87,017	5,943	92,960
Profit for the year	–	–	–	–	–	64,262	64,262	–	64,262
Exchange differences arising on translation of foreign operations	–	–	(544)	–	–	–	(544)	9	(535)
Total comprehensive (expense) income for the year	–	–	(544)	–	–	64,262	63,718	9	63,727
At 31 December 2009	93,141	–	9,321	(63,141)	4,290	107,124	150,735	5,952	156,687
Profit for the year	–	–	–	–	–	29,152	29,152	(1,607)	27,545
Exchange differences arising on translation of foreign operations	–	–	2,655	–	–	–	2,655	94	2,749
Reclassification adjustment upon disposal of a jointly controlled entity	–	–	(4,156)	–	–	–	(4,156)	–	(4,156)
Reclassification adjustment upon disposal of a subsidiary	–	–	3,439	–	–	–	3,439	–	3,439
Total comprehensive income (expense) for the year	–	–	1,938	–	–	29,152	31,090	(1,513)	29,577
Issue of ordinary shares pursuant to an open offer	31,047	15,523	–	–	–	–	46,570	–	46,570
Shares issue expenses	–	(1,337)	–	–	–	–	(1,337)	–	(1,337)
At 31 December 2010	124,188	14,186	11,259	(63,141)	4,290	136,276	227,058	4,439	231,497

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
Operating activities		
Profit before tax	**27,867**	68,315
Adjustments for:		
Finance costs	**1,710**	3,774
Amortisation of intangible assets	**599**	—
Depreciation of property, plant and equipment	**9,311**	14,233
Bad debts written off	**373**	147
Write off of other payables	**—**	(710)
Share of results of associates	**188**	(1,709)
Gain on disposal of property, plant and equipment	**(3,600)**	—
Gain on disposal of a subsidiary	**(5,923)**	—
Gain on disposal of a jointly controlled entity	**(3,042)**	—
Increase in fair value of held-for-trading investments	**(6,717)**	(17,295)
Dividends from held-for-trading investments	**(1,730)**	(1,367)
Share of results of jointly controlled entities	**(30,039)**	(37,869)
Interest on bank deposits	**(45)**	(11)
Interest on other receivables	**—**	(36)
Interest on other financial asset	**(1,449)**	(1,436)
Operating cash flows before movements in working capital	**(12,497)**	26,036
Increase in other financial asset	**(861)**	(4,015)
Decrease in amounts due from customers for contract work	**32,578**	52,784
(Increase) decrease in debtors, deposits and prepayments	**(54,667)**	8,272
Decrease in held-for-trading investments	**6,495**	10,282
Decrease in amounts due to customers for contract work	**(4,985)**	(40,509)
Increase (decrease) in creditors and accrued charges	**7,203**	(9,114)
Cash (used in) generated from operations	**(26,734)**	43,736
Interest on bank deposits received	**45**	11
Interest on other receivables received	**—**	36
Interest on other financial asset	**1,449**	1,436
Income taxes paid	**(2,382)**	(1,700)
Net cash (used in) from operating activities	**(27,622)**	43,519

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
Investing activities			
Repayment from jointly controlled entities		–	17,153
Distribution of profits from jointly controlled entities		35,216	13,560
(Advance to) repayment from associates		(497)	313
Dividends from held-for-trading investments		1,730	1,367
Advances to jointly controlled entities		(28,828)	–
Purchases of property, plant and equipment		(15,690)	(9,175)
Decrease (increase) in pledged bank deposits		1,796	(802)
Proceeds from disposal of property, plant and equipment		3,600	–
Proceed from disposal of a subsidiary	38	–	–
Proceed from disposal of a jointly controlled entity		21,723	–
Addition of intangible assets		(33,567)	–
Net cash (used in) from investing activities		(14,517)	22,416
Financing activities			
Repayment of bank loans		(19,157)	(82,982)
Interest paid		(1,397)	(3,507)
(Repayment to) advances from fellow subsidiaries		(8,769)	6,851
Advances from an intermediate holding company		6,836	1,412
Ordinary share dividend paid to an intermediate holding company		(22,000)	–
Preference share dividend paid to immediate holding company		(1,224)	–
Proceeds from issue of ordinary shares		46,570	–
Shares issue expenses		(1,337)	–
New bank loans raised		56,000	–
Repayment of loans from a director		(10,000)	–
Net cash from (used in) financing activities		45,522	(78,226)
Net increase (decrease) in cash and cash equivalents		3,383	(12,291)
Cash and cash equivalents at beginning of the year		20,687	32,704
Effect of foreign exchange rate changes, net		2,742	274
Cash and cash equivalents at end of the year		26,812	20,687
Represented by:			
Bank balances and cash		26,812	20,687

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its significant subsidiaries, associates and jointly controlled entities are set out in notes 44, 33 and 18 respectively.

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

In the current year, the Group has applied, the following new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners
HK — Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of these new and revised HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods except for the impact as described below.

HKFRS 3 (Revised 2008) "Business Combinations" and HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements"

The Group applies HKFRS 3 (Revised 2008) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no significant transaction during the year in which HKFRS 3 (Revised 2008) and HKAS 27 (Revised 2008) are applicable, the application of HKFRS 3 (Revised 2008), HKAS 27 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

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

Hong Kong Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"

Hong Kong Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. HK Int 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at 31 December 2010, bank loans that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause with the aggregate carrying amount of HK$3,831,000 have been classified as current liabilities. The application of HK Int 5 has had no significant impact on the classification of bank borrowings at 31 December 2009 and reported profit or loss for the current and prior years.

The adoption of the other new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[6]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2013.
7 Effective for annual periods beginning on or after 1 January 2012.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

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

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of HKFRS 9 may have an impact on classification and measurement of available-for-sale investments.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with 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 and 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 in full on consolidation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

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

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

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1 January 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

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

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

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

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

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

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

Goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

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

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities (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.

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

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

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

Revenue recognition

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

Construction contract

When the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement can be estimated reliably, revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the value of work performed during the year. Variations in contract work, claims, and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

Others

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Construction contracts

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

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

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

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

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 the end of each reporting period subsequent to initial recognition, the financial asset is carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on financial assets below).

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise 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 other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (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.

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 end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, interests in joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired in a business combination

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

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

Service concession arrangements

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

Financial instruments

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Effective interest method

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets

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

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

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

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

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, 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, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group entity 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 non-controlling shareholders, dividends payable to holding companies, loans from a director and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make 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.

Key sources of estimation uncertainty

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

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

Determining the recoverable amounts of the intangible assets (i.e. construction licenses with indefinite useful lives) arising from the acquisition of a subsidiary, which is included in the consolidated statement of financial position at 31 December 2010 at HK$32,858,000 (2009: HK$32,858,000), requires an estimation of the revenues to be generated in future periods from the acquired construction licenses. The construction projects continue to progress in a satisfactory manner, and the recent new projects successfully secured by the Group have reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licenses. However, increased market competition has caused the management to reconsider its assumptions regarding future market share and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and the management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate is applied in order to calculate the present value. As at 31 December 2010, the carrying amount of goodwill is HK$30,554,000 (2009: HK$30,554,000). Details of the recoverable amount calculation are disclosed in note 16.

Income taxes

As at 31 December 2010, no deferred tax asset has been recognised in the Group's consolidated statement of financial position in relation to unused tax losses of HK$303,592,000 (2009: HK$286,259,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profit or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition takes place.

Construction Contracts

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

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

5. REVENUE

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

6. SEGMENTAL INFORMATION

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

Year ended 31 December 2010

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Group revenue	**648,500**	**55,663**	**18,233**	**722,396**
Share of revenue of jointly controlled entities	**132,252**	**—**	**60,320**	**192,572**
Segment revenue	**780,752**	**55,663**	**78,553**	**914,968**
Group results	**(10,508)**	**13,006**	**(15,279)**	**(12,781)**
Share of results of jointly controlled entities	**7,270**	**—**	**22,769**	**30,039**
Segment (loss) profit	**(3,238)**	**13,006**	**7,490**	**17,258**
Unallocated expenses				**(1,863)**
Dividends from held-for-trading investments				**1,730**
Increase in fair value of held-for-trading investments				**6,717**
Gain on disposal of a subsidiary				**5,923**
Share of results of associates				**(188)**
Finance costs				**(1,710)**
Profit before tax				**27,867**

Year ended 31 December 2009

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Group revenue	781,200	10,656	30,216	822,072
Share of revenue of jointly controlled entities	18,769	1,192	193,110	213,071
Segment revenue	799,969	11,848	223,326	1,035,143
Group results	21,894	5,347	(10,536)	16,705
Share of results of jointly controlled entities	5,068	(1,961)	34,033	37,140
Segment profit	26,962	3,386	23,497	53,845
Unallocated expenses				(2,856)
Dividends from held-for-trading investments				1,367
Increase in fair value of held-for-trading investments				17,295
Share of result of a jointly controlled entity				729
Share of results of associates				1,709
Finance costs				(3,774)
Profit before tax				68,315

There are no inter-segment sales for both years.

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

6. SEGMENTAL INFORMATION (Continued)

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

At 31 December 2010

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Group assets	348,086	108,651	37,936	494,673
Interests in jointly controlled entities	6,189	14,118	40,965	61,272
Segment assets	354,275	122,769	78,901	555,945
Unallocated assets				82,353
Total consolidated assets				638,298
Liabilities				
Segment liabilities	282,187	26,648	7,856	316,691
Obligations in excess of interests in associates				18,932
Unallocated liabilities				71,178
Total consolidated liabilities				406,801

For the year ended 31 December 2010

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	7,776	33,642	7,839	49,257
Amortisation of intangible assets	—	599	—	599
Depreciation of property, plant and equipment	440	85	8,786	9,311
Gain on disposal of property, plant and equipment	3,600	—	—	3,600
Interest income	—	1,494	—	1,494

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

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2009

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Group assets	319,427	72,981	23,732	416,140
Interests in jointly controlled entities	3,864	36,955	48,467	89,286
Segment assets	323,291	109,936	72,199	505,426
Unallocated assets				78,425
Total consolidated assets				583,851
Liabilities				
Segment liabilities	309,884	12,176	6,968	329,028
Obligations in excess of interests in associates				18,744
Unallocated liabilities				79,392
Total consolidated liabilities				427,164

For the year ended 31 December 2009

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	59	—	9,116	9,175
Depreciation of property, plant and equipment	351	197	13,674	14,222
Interest income	36	1,447	—	1,483

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

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

- all assets are allocated to reportable segments other than goodwill, available-for-sale investments, held-for-trading investments, certain deposits and prepayments, pledged bank deposits, and bank balances and cash, and

- all liabilities are allocated to reportable segments other than certain creditors and accrued charges, ordinary share dividend payable to an intermediate holding company, preference share dividend payable to immediate holding company, loans from a director, tax liabilities, bank loans, deferred tax liabilities, obligations in excess of interests in associates, and certain corporate liabilities.

6. SEGMENTAL INFORMATION (Continued)

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

	Non-current assets	
	2010	2009
	HK$'000	HK$'000
Hong Kong	**77,335**	67,673
The PRC	**47,248**	37,136
Middle East	**61,517**	69,965
	186,100	174,774

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

For the year ended 31 December 2010, there were two customers (2009: two) who accounted for over 10% of total revenue with revenue of HK$305,517,000 (2009: HK$457,632,000) and HK$203,053,000 (2009: HK$86,479,000) each and they were located in Hong Kong. Customers with the second largest revenue in 2010 and 2009 are not the same party.

7. OTHER INCOME

	2010	2009
	HK$'000	HK$'000
Other income includes:		
Dividends from held-for-trading investments	**1,730**	1,367
Gain on disposal of property, plant and equipment	**3,600**	—
Gain on disposal of a subsidiary (note 38)	**5,923**	—
Gain on disposal of a jointly controlled entity (note 18)	**3,042**	—
Interest on bank deposits	**45**	11
Interest on other receivables	**—**	36
Interest on other financial asset	**1,449**	1,436
Service income from a jointly controlled entity	**6,684**	—
Write off of other payables	**—**	710

8. FINANCE COSTS

	2010	2009
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**1,397**	3,005
Interest bearing amount due to an associate	**—**	141
Imputed interest expense on non-current interest free amount due to an associate	**313**	267
Interest bearing loans from a director	**—**	361
	1,710	3,774

9. PROFIT BEFORE TAX

	2010 HK$'000	2009 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration	**1,375**	1,375
Bad debts written off	**373**	147
Depreciation of property, plant and equipment	**9,325**	14,253
Less: amount attributable to construction contracts	**(14)**	(20)
	9,311	14,233
Hire charges for plant and machinery	**12,694**	13,611
Less: amount attributable to construction contracts	**(12,694)**	(13,611)
	—	—
Construction contract costs recognised for sewage treatment plant	**31,371**	—
Amortisation of intangible assets	**599**	—
Net foreign exchange losses	**1,191**	594
Operating lease rentals in respect of land and buildings	**6,148**	6,503
Less: amount attributable to construction contracts	**(550)**	(1,160)
	5,598	5,343
Share of income tax expense of jointly controlled entities (included in share of results of jointly controlled entities)	**22**	499
Staff costs:		
Directors' remuneration (note 10)	**6,403**	5,532
Other staff costs	**155,829**	144,449
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$164,000 (2009: HK$156,000)	**9,113**	6,751
	171,345	156,732
Less: amount attributable to construction contracts	**(103,875)**	(104,136)
	67,470	52,596

10. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the eight (2009: nine) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2010				
Zen Wei Peu, Derek	**—**	**3,947**	**12**	**3,959**
Chang Kam Chuen, Desmond	**—**	**1,441**	**133**	**1,574**
David Howard Gem	**145**	**—**	**—**	**145**
Cheng Chi Pang, Leslie	**145**	**—**	**—**	**145**
Chow Ming Kuen, Joseph	**145**	**—**	**—**	**145**
Ng Chi Ming, James	**145**	**—**	**—**	**145**
Ho Tai Wai, David	**145**	**—**	**—**	**145**
Chan Chi Hung, Anthony	**145**	**—**	**—**	**145**
	870	**5,388**	**145**	**6,403**
Year ended 31 December 2009				
Zen Wei Peu, Derek	—	2,250	12	2,262
Yu Sai Yen	—	914	39	953
Chang Kam Chuen, Desmond	—	1,327	120	1,447
David Howard Gem	145	—	—	145
Cheng Chi Pang, Leslie	145	—	—	145
Chow Ming Kuen, Joseph	145	—	—	145
Ng Chi Ming, James	145	—	—	145
Ho Tai Wai, David	145	—	—	145
Chan Chi Hung, Anthony	145	—	—	145
	870	4,491	171	5,532

No director waived any emoluments for both years ended 31 December 2010 and 2009.

11. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included one (2009: two) director, details of whose emoluments are set out in note 10 above. The emoluments of the remaining four (2009: three) highest paid individuals were as follows:

	2010 HK$'000	2009 HK$'000
Salaries and other benefits	**7,384**	5,073
Retirement benefits scheme contributions	**383**	272
	7,767	5,345

Their emoluments were within the following bands:

	Number of employees	
	2010	2009
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**2**	1

12. INCOME TAX EXPENSE

	2010 HK$'000	2009 HK$'000
Current tax:		
Hong Kong	**193**	1,921
Other jurisdiction	**183**	—
	376	1,921
(Over)underprovision in prior years:		
Hong Kong	**231**	2,132
Other jurisdiction	**(285)**	—
	(54)	2,132
	322	4,053

Hong Kong Profits Tax is provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits less available tax losses brought forward.

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

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

	2010 HK$'000	2009 HK$'000
Profit before tax	**27,867**	68,315
Taxation at the applicable rate of 16.5% (2009: 16.5%)	**4,598**	11,272
Tax effect of share of results of associates	**31**	(282)
Tax effect of share of results of jointly controlled entities	**(4,956)**	(6,248)
Tax effect of expenses that are not deductible in determining taxable profit	**1,155**	2,473
Tax effect of income that is not taxable in determining taxable profit	**(2,200)**	(1,320)
(Over)underprovision in prior years	**(54)**	2,132
Tax effect of unrecognised tax losses	**6,098**	3,191
Tax effect of utilisation of tax losses previously not recognised	**(3,238)**	(7,612)
Others	**(1,112)**	447
Income tax expense for the year	**322**	4,053

13. EARNINGS PER SHARE

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

	2010 HK$'000	2009 HK$'000
Profit for the year attributable to owners of the Company and earnings for the purpose of basic earnings per ordinary share	**29,152**	64,262

	Number of shares 2010 '000	2009 '000 (restated)
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	**1,216,878**	1,019,320

The weighted average number of shares for the purpose of calculating basic earnings per share for both periods has been retrospectively adjusted for the effect of bonus element in connection to the open offer (see note 30) completed in February 2010.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Total HK$'000
COST						
At 1 January 2009	7,677	14,474	22,247	5,878	82,647	132,923
Exchange realignment	—	14	19	6	—	39
Additions	—	—	59	—	9,116	9,175
At 31 December 2009	7,677	14,488	22,325	5,884	91,763	142,137
Exchange realignment	—	114	126	37	—	277
Additions	—	6,791	1,069	303	7,527	15,690
Disposals	—	—	—	—	(7,615)	(7,615)
At 31 December 2010	**7,677**	**21,393**	**23,520**	**6,224**	**91,675**	**150,489**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2009	7,677	14,474	21,297	5,255	57,071	105,774
Exchange realignment	—	14	16	4	—	34
Provided for the year	—	—	445	325	13,483	14,253
At 31 December 2009	7,677	14,488	21,758	5,584	70,554	120,061
Exchange realignment	—	114	121	35	—	270
Provided for the year	—	—	471	254	8,600	9,325
Eliminated on disposals	—	—	—	—	(7,615)	(7,615)
At 31 December 2010	**7,677**	**14,602**	**22,350**	**5,873**	**71,539**	**122,041**
CARRYING VALUES						
At 31 December 2010	**—**	**6,791**	**1,170**	**351**	**20,136**	**28,448**
At 31 December 2009	—	—	567	300	21,209	22,076

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$53,000 (2009: HK$201,000) to secure bank loans.

15. INTANGIBLE ASSETS

	Construction licenses HK$'000 (Note a)	Service concession arrangement HK$'000 (Note b)	Total HK$'000
COST			
At 1 January 2009 and 31 December 2009	32,858	—	32,858
Additions	—	33,567	33,567
At 31 December 2010	32,858	33,567	66,425
AMORTISATION			
At 1 January 2009 and 31 December 2009	—	—	—
Charge for the year	—	599	599
At 31 December 2010	—	599	599
CARRYING VALUES			
At 31 December 2010	32,858	32,968	65,826
At 31 December 2009	32,858	—	32,858

Notes:

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

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

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

15. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

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

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

Wuxi Qianhui commenced the construction and finished in current year. The sewage treatment plant phase II has been put into operation in current year.

During the year ended 31 December 2010, the Group recognised revenue from construction of sewage treatment plant phase II of approximately HK$33,567,000 (2009: nil).

16. GOODWILL

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

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

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

For the purpose of impairment testing of intangible asset, intangible asset with indefinite useful lives set out in note 15 have been allocated to a CGU, a subsidiary, acquired in 2005, which is included in Hong Kong segment and holds the construction 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 group of CGU and CGU have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Group's management covering a period of 5 years, and a discount rate of 10% (2009: 10%). Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2010 HK$'000	2009 HK$'000
Cost of investment in unlisted jointly controlled entities	**20,067**	44,090
Share of post-acquisition profits and other comprehensive income, net of dividends received	**41,205**	45,196
	61,272	89,286

At 31 December 2010 and 2009, 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 2010 %	2009 %	Principal activities
ACC-Leader Joint Venture	Unincorporated	Middle East	**50**	50	Civil engineering
China Railway Tenth Group Third Engineering Co., Ltd.	Incorporated	PRC	**–** (note 1)	49	Civil engineering
Kaden-ATAL Joint Venture	Unincorporated	Hong Kong	**50**	50	Civil engineering
Shanxi Jin Ya Road and Bridge Construction Co., Ltd.	Incorporated (note 2)	PRC	**51** (note 3)	51	Road construction
Chun Wo-Leader Joint Venture	Unincorporated	Hong Kong	**51** (note 3)	51	Civil engineering
Kaden-VSL Joint Venture	Unincorporated	Hong Kong	**51** (note 3)	51	Civil engineering
Kier-Kaden-OSSA Joint Venture	Unincorporated	Hong Kong	**35**	–	Civil engineering

Notes:

1. On 25 February 2010, the Group entered into a sale and purchase Agreement ("S&P Agreement") to dispose of the Group's entire interest in China Railway Tenth Group Third Engineering Co., Ltd., an equity joint venture established in the PRC to third parties for a consideration of RMB19,080,000 (equivalent to approximately HK$21,723,000). Details of the disposal are set out in the Company's Announcement and Notices — Disclosable Transactions dated 25 February 2010. The Group has reported a gain on disposal of the jointly controlled entity of HK$3,042,000 during the year.

2. The company is an equity joint venture registered in the PRC.

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

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

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

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

Share of results attributable to the Group

	2010 **HK$'000**	2009 HK$'000
Revenue	**192,572**	213,071
Other income	**46**	117
Total revenue	**192,618**	213,188
Total expenses	**(162,557)**	(174,820)
Profit before tax	**30,061**	38,368
Income tax expense	**(22)**	(499)
Profit for the year	**30,039**	37,869

Share of assets and liabilities attributable to the Group

	2010 **HK$'000**	2009 HK$'000
Non-current assets	**9,189**	16,579
Current assets	**219,844**	161,085
Current liabilities	**(167,761)**	(88,378)
Net assets	**61,272**	89,286

19. AVAILABLE-FOR-SALE INVESTMENTS

	2010 **HK$'000**	2009 HK$'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 the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably.

20. OTHER FINANCIAL ASSET

Wuxi Qianhui, entered into a service concession arrangement with the local government whereby Wuxi Qianhui is required to build the infrastructure of a sewage treatment plant phase I (see note 15 for details of sewage treatment plant phase II) and is granted an exclusive operating rights for provision of sewage treatment services to the industrial and domestic users in Qian Qiao Zhen, Hui Shan District, Wu Xi City, Jiang Su Province of the PRC for a term of 30 years.

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 had been put into operation commencing from 2007.

Under the service concession arrangement, the local government of Qian Qiao Zhen guarantees a minimum volume of sewage to be treated by the plant with a fixed predetermined rate per tons of sewage. The agreed price will be reviewed annually. Therefore, the service concession arrangement is classified as financial assets. The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised as other financial asset carrying effective interest rate of 2.61% (2009: 2.82%) per annum and repayable over the service concession period of 30 years.

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

	2010 **HK$'000**	2009 HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	**3,364,371**	2,775,389
Less: Progress billings	**(3,328,251)**	(2,711,690)
	36,120	63,699
Represented by:		
Due from customers included in current assets	**66,493**	99,057
Due to customers included in current liabilities	**(30,373)**	(35,358)
	36,120	63,699

22. DEBTORS, DEPOSITS AND PREPAYMENTS

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

	2010 **HK$'000**	2009 HK$'000
Trade debtors analysed by age:		
0 to 60 days	**162,520**	125,262
Over 90 days	**1,090**	4,618
	163,610	129,880
Retention receivables	**52,193**	41,091
Other debtors, deposits and prepayments	**41,037**	31,591
	256,840	202,562
Retention receivables:		
Due within one year	**26,079**	21,194
Due more than one year	**26,114**	19,897
	52,193	41,091

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

Included in the Group's trade debtors are debtors with a carrying amount of HK$1,090,000 (2009: HK$4,618,000) which are past due but not impaired as at the end of the reporting period. As there has not been a significant change in credit quality, the amounts are still considered recoverable.

Ageing of trade receivables which are past due but not impaired

	2010 **HK$'000**	2009 HK$'000
Over 90 days	**1,090**	4,618

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 good 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 receivables from the date credit was initially granted up to the end of the reporting period.

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

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

24. HELD-FOR-TRADING INVESTMENTS

	2010 HK$'000	2009 HK$'000
Held-for-trading investments stated at fair value:		
— Equity securities listed in Hong Kong	**24,874**	24,666
— Equity securities listed in the United States of America	**41**	27
	24,915	24,693

At 31 December 2010, certain equity securities with market value of HK$21,150,000 (31 December 2009: HK$18,090,000) were pledged to a bank to secure general banking facilities granted to the Group. Although these equity securities were pledged to the bank, the Group is allowed to trade the pledged securities upon the repayment of respective bank borrowings. In relation to the pledge of equity securities, the bank also requires certain subsidiaries of the Company that are entitled to the bank facilities to provide cross guarantee to the bank.

25. PLEDGED BANK DEPOSIT/BANK BALANCES

Bank deposit of the Group amounting to HK$19,000 (2009: HK$1,815,000) was pledged to bank for securing the banking facilities granted to the Group. The pledged bank deposit carries fixed interest at 0.01% (2009: 0.01%) per annum.

Bank balances carry average market interest rate ranging from 0.01% to 0.79% (2009: 0.01%) per annum.

26. CREDITORS AND ACCRUED CHARGES

	2010 HK$'000	2009 HK$'000
Trade creditors analysed by age based on invoice date at the end of the reporting period:		
0 to 60 days	**54,608**	36,906
61 to 90 days	**2,824**	1,390
Over 90 days	**4,745**	13,567
	62,177	51,863
Retention payables	**43,435**	41,947
Accrued project costs	**113,023**	129,538
Other creditors and accrued charges	**29,201**	26,663
	247,836	250,011
Retention payables		
Repayable within one year	**38,835**	26,440
Repayable more than one year	**4,600**	15,507
	43,435	41,947

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

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

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

28. LOANS FROM A DIRECTOR

The loans were unsecured, carries interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.75% per annum. The loans were fully settled during the year.

29. BANK LOANS

	2010	2009
	HK$'000	HK$'000
The maturity of bank loans is as follows:		
On demand or within one year	**36,350**	18,050
In the second year	**12,595**	3,928
In the third to fifth year inclusive	**13,750**	3,874
	62,695	25,852
Less: Amount due within one year shown under current liabilities	**(36,350)**	(25,798)
Amount due after one year	**26,345**	54
Secured	**50,069**	9,230
Unsecured	**12,626**	16,622
	62,695	25,852

At the end of the reporting period, bank loans include HK$69,000 (2009: HK$230,000) fixed rate borrowings which carry interest ranging from 8.52% to 9.39% (2009: ranging from 8.52% to 9.39%) per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 2.8% to 3.35% (2009: 2.7% to 7.1%) per annum. Bank loans of HK$32,738,000 (2009: HK$16,622,000) carry an interest which is repriced every six months. The remaining bank loans carry interest which is repriced every month.

As at 31 December 2010, the Group complied with all the terms of the bank loans.

As at 31 December 2009, in respect of bank loans with carrying amounts of HK$16,622,000, the Group breached certain of the terms of the bank loans, which were primarily related to the debt-equity ratio of the Group. According to HKAS 1 "Presentation of Financial Statements", since the banks had not agreed to waive their right to demand immediate payment as at 31 December 2009, the non-current portion of the bank loans amounting to HK$7,748,000 had been classified as a current liability in the consolidated statement of financial position as at 31 December 2009. The Group had subsequently obtained written consent from the banks to waive their rights to demand immediate repayment.

As at 31 December 2010, bank loans that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause with the aggregate carrying amount of HK$3,831,000 have been classified as current liabilities.

As at the end of the reporting period, the Group has undrawn borrowing facilities of HK$78,110,000 (2009: HK$60,110,000).

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

30. ORDINARY SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 January 2009, 31 December 2009 and 2010	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 January 2009 and 31 December 2009	931,408,494	93,141
Issue of shares	310,469,498	31,047
At 31 December 2010	1,241,877,992	124,188

On 10 February 2010, the Company raised approximately HK$46.6 million before expenses for general working capital of the Group, by way of issuing 310,469,498 shares of HK$0.1 each at the subscription price of HK$0.150 per share on the basis of one offer share for every three shares held on 15 January 2010, the record date of the open offer.

Details of the open offer are set out in the circular of the Company dated 18 January 2010.

31. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2009, 31 December 2009 and 2010	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
At 1 January 2009, 31 December 2009 and 2010	—	—

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

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

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

32. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group represent fair value of intangible assets arising from the acquisition of a subsidiary during the year ended 31 December 2005. There is no movement of balance during each of the two years ended 31 December 2010.

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

	2010 **HK$'000**	2009 HK$'000
Tax losses:		
To expire in 2012	**2,355**	2,355
To expire in 2013	**4,298**	4,298
To expire in 2014	**1,584**	1,584
Carried forward indefinitely	**295,355**	278,022
	303,592	286,259

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

33. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2010 **HK$'000**	2009 HK$'000
Cost of investment in unlisted associates	**4**	4
Share of post-acquisition losses (note)	**(18,936)**	(18,748)
	(18,932)	(18,744)

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 2010 and 2009 are as follows:

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

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

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

	2010	2009
	HK$'000	HK$'000
Total assets	**63,535**	66,525
Total liabilities	**(101,399)**	(104,013)
Net liabilities	**(37,864)**	(37,488)
Group's share of net liabilities of associates	**(18,932)**	(18,744)
Revenue	**16,637**	63,563
(Loss) profit for the year	**(376)**	3,418
Group's share of results of associates for the year	**(188)**	1,709

34. AMOUNT DUE TO AN ASSOCIATE

The current amount due to an associate is unsecured, interest-free and repayable on demand. As at 31 December 2009, an advance from an associate of HK$3,500,000 carried 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 end of the reporting period and the balance is therefore shown as non-current liabilities. The non-current amount is carried at amortised cost using effective interest of 5.4% (2009: 5.4%) per annum.

35. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest-free and has no fixed repayment terms. The jointly controlled entity has agreed not to demand repayment within twelve months from the end of the reporting period and the balance is therefore shown as a non-current liability.

36. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank loans and loans from a director disclosed in notes 29 and 28 respectively and equity attributable to equity holders of the Company, comprising issued capital and reserves.

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

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

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 HK$'000	2009 HK$'000
Financial assets		
Held-for-trading investments	**24,915**	24,693
Loans and receivables (including cash and cash equivalents)	**348,891**	276,317
Available-for-sale financial assets	**—**	—
	373,806	301,010
Financial liabilities		
Amortised cost	**351,553**	365,059

(b) Financial risk management objectives and policies

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

Market risk

(i) currency risk

Certain bank loans amounting to HK$7,738,000 (2009: HK$11,622,000) are denominated in United States dollars which are different from the functional currency of the respective 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, the 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 29, 28 and 34 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 dollars denominated borrowings.

37. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

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

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease/increase by HK$627,000 (2009: HK$391,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank loans.

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

(iii) Other price risk

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

Other price sensitivity analysis

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

If the prices of the respective equity instruments had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2010 would increase/decrease by HK$1,246,000 (2009: HK$1,235,000) 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 2009.

Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as the major customers of the Group are the HKSAR Government and a reputable organisation. The directors of the Company consider that the HKSAR Government and the reputable organisation is financially sound and accordingly no provision is required.

37. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk (Continued)

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

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

Liquidity risk

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

Liquidity and interest risk tables

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

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2010 HK$'000
2010								
Non-interest bearing	–	262,877	1,452	7,690	10,387	15,967	298,373	288,858
Fixed interest rate instruments	8.96	43	21	8	–	–	72	69
Variable interest rate instruments	3.17	30,513	625	5,202	26,514	–	62,854	62,626
		293,433	2,098	12,900	36,901	15,967	361,299	351,553

37. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate %	Repayable on demand or 3 months or less HK$'000	3-6 months HK$'000	6-12 months HK$'000	1-3 years HK$'000	Over 3 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2009 HK$'000
2009								
Non-interest bearing	–	286,278	4,395	6,500	21,211	17,155	335,539	325,707
Fixed interest rate instruments	8.96	44	44	87	71	–	246	230
Variable interest rate instruments	2.01	20,162	10,063	9,255	–	–	39,480	39,122
		306,484	14,502	15,842	21,282	17,155	375,265	365,059

Bank loan with a repayment on demand clause is included in the "Repayable on demand or 3 months or less" time band in the above maturity analysis. As at 31 December 2010, the aggregate undiscounted principal amount of the bank loan amounted to HK$3,831,000. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid during the "1-3 years" and "over 3 years" time bands after the reporting date in accordance with the scheduled repayment dates set out in the loan agreement. At that time, the aggregate principal and interest cash outflows will amount to HK$4,063,000.

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

(c) Fair value

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

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

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

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

37. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

	Level 1	
	2010	2009
	HK$'000	HK$'000
Equity securities, listed	**24,915**	24,693

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

38. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of its subsidiary, Hsin Lung Construction Company Limited ("Hsin Lung"), to a third party for a consideration of HK$28. The net liabilities of Hsin Lung at the date of disposal were as follows:

The net liabilities of Hsin Lung over which control is lost at the date of disposal were as follows:

	HK$'000
Trade and other receivables	16
Trade and other payables	(9,378)
Net liabilities disposed of	(9,362)
Gain on disposal of a subsidiary:	
Consideration received	—
Net liabilities disposed of	(9,362)
Translation reserve released	3,439
Gain on disposal	(5,923)

The impact of Hsin Lung on the Group's results and cash flows in the current and prior year is insignificant.

39. CONTINGENT LIABILITIES

	2010 **HK$'000**	2009 HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**201,429**	151,029

40. COMMITMENTS

Operating lease commitments

The Group as lessee

At 31 December 2010, 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:

	2010 **HK$'000**	2009 HK$'000
Within one year	**9,568**	7,181
In the second to fifth years inclusive	**1,522**	3,093
	11,090	10,274

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

41. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to the consolidated income statement of HK$9,258,000 (2009: HK$6,922,000) represents contributions paid or payable to the retirement benefit schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

42. RELATED PARTY TRANSACTIONS

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

	2010 HK$'000	2009 HK$'000
Immediate holding company		
Corporate guarantee fee expense	**605**	570
Associate		
Interest expense	**—**	141
Jointly controlled entity		
Service income	**6,684**	—
Director		
Interest expense	**—**	361

During the year ended 31 December 2010, the Group disposed of its entire interest in a jointly controlled entity to the joint venture partner of the jointly controlled entity for a consideration of HK$21,723,000.

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

Compensation of key management personnel

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

	2010 HK$'000	2009 HK$'000
Short-term benefits	**13,378**	9,666
Post-employment benefits	**628**	494
	14,006	10,160

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 2010, a director provided personal guarantees amounting to HK$12,500,000 (2009: HK$12,500,000) to a bank to secure the general banking facilities granted to the Group.

At 31 December 2010, Wai Kee provided corporate guarantees amounting to HK$45,000,000 (2009: HK$45,000,000) to a bank to secure the general banking facilities granted to the Group and charged corporate guarantee fee of HK$605,000 (2009: HK$570,000) to the Group.

At 31 December 2010 and 31 December 2009, 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 with carrying value of HK$1,807,000 (2009: HK$1,807,000) for the construction of Zhejiang Shenjiawan — Zhongmentong (the "JCE"). The JCE is an unincorporated jointly controlled entity operating in the PRC, with a 50% attributable interests held by a wholly-owned subsidiary of the Company and the remaining attributable interest held by two wholly-owned subsidiaries of Wai Kee.

43. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 **HK$'000**	2009 HK$'000
Investment in a subsidiary	**60,000**	60,000
Amounts due from subsidiaries	**32,690**	12,638
Other current assets	**6,563**	42
Other current liabilities	**(163)**	(3,628)
Loans from a director	**—**	(10,000)
Bank loans	**(7,738)**	(11,622)
	91,352	47,430
Share capital	**124,188**	93,141
Reserves	**(32,836)**	(45,711)
	91,352	47,430

44. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 and 2009 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
Kaden Construction Limited	United Kingdom	Hong Kong	GBP16,072,500	100	Construction and civil engineering
Leader Civil Engineering Corporation Limited	Hong Kong	Hong Kong	HK$25,200,000 Ordinary shares	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

44. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group %	Principal activities
Leader Marine Cont. L.L.C.	Sharjah, U.A.E.	U.A.E.	Dh300,000	100	First class contracting/ specialised in marine construction
Profound Success Limited	BVI	Hong Kong	US$1	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US$1	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	Hong Kong	HK$10,000,000	100	Civil engineering
Wai Kee (Zens) Construction & Transportation Company Limited	Hong Kong	Hong Kong	HK$2 Ordinary shares HK$14,800,000 Non-voting deferred shares HK$5,200,000 Non-voting deferred shares (note 1)	100 100 –	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 a 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.

Financial Summary

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Group revenue	605,927	798,475	751,130	822,072	**722,396**
Share of revenue of jointly controlled entities	383,525	486,452	214,412	213,071	**192,572**
	989,452	1,284,927	965,542	1,035,143	**914,968**
Group revenue	605,927	798,475	751,130	822,072	**722,396**
Operating profit (loss)					
Company and subsidiaries	12,985	4,889	(118,163)	32,511	**(274)**
Share of results of jointly controlled entities	26,860	29,045	26,572	37,869	**30,039**
Share of results of associates	(15)	134	1,457	1,709	**(188)**
Finance costs	(6,746)	(12,214)	(7,323)	(3,774)	**(1,710)**
Profit (loss) before tax	33,084	21,854	(97,457)	68,315	**27,867**
Income tax (expense) credit	(25,691)	(6,781)	142	(4,053)	**(322)**
Profit (loss) for the year	7,393	15,073	(97,315)	64,262	**27,545**

FINANCIAL POSITION

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	654,617	683,433	646,741	583,851	**638,298**
Total liabilities	(492,460)	(496,567)	(553,781)	(427,164)	**(406,801)**
Net assets	162,157	186,866	92,960	156,687	**231,497**

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Chang Kam Chuen, Desmond

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Reed Smith Richards Butler
Conyers Dill & Pearman

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Units 1001-1015, 10th Floor
Tower 1, Grand Central Plaza
138 Shatin Rural Committee Road
Shatin
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

00240

WEBSITE

www.buildking.hk