



Build King Holdings Limited

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

Annual Report 2015



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Financial Highlights

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity** per share	22%
Equity	HK\$422 million
Equity per share	HK34 cents
Group revenue	HK\$4,572 million
Profit attributable to owners of the Company	HK\$94 million
Final dividend per share	HK1.5 cents

** equity refers to equity attributable to owners of the Company

FINAL DIVIDEND

The board of directors (the “Board”) of the Company recommends the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2015 (2014: HK1 cent).

Chairman's Letter

The Group's gain in equity during 2015 was HK\$76 million whilst the equity per share increased by 22% to HK34 cents. Our turnover this year was HK\$4.6 billion, an increase of 41% over last year, which was much better than I predicted. The net profit attributable to the shareholders was HK\$94 million, 71% over last year. However, this was still short of my target 3% net profit on turnover. Also, unfortunately the difficult job we encounter last year is still unresolved which adversely affected our performance.

Our order book at the time of writing is HK\$11 billion, an increase of 36% over last year. Although this represents a two year workload, three years is my target and we therefore need to win quite an amount of new contracts this year to achieve it.

Having said that, with the contracts on hand this year I expect the turnover will be higher than in 2015 with an improved bottom line closer to my target of 3% profit, if we can perform.

Since listing, our cumulative gain in equity is 341% or 13.6% p.a. which remains below my target of 15% p.a. I am quite confident that, barring accidents, we will meet my target in 2016 and I hope that eventually we can do so regularly year by year.

Nevertheless, a word of caution, the funding approval by the filibustering in the Legislative Council has continued to delay the award of several new public works projects during 2015 and has, in fact, escalated. This is surely very bad for our industry as well as for the whole of Hong Kong. I hope everyone will come to their senses quickly to put a stop to this meaningless behaviour. If this is not resolved quickly, our results in 2017 will be adversely affected.

BUSINESS ANALYSIS

Construction

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

Our Civil Engineering Division turnover was HK\$3.2 billion in the year, an increase of 27% over 2014. We have 28 numbers of active civil projects of which 10 are in Joint Venture with others. Most of the contracts are progressing well including the joint venture tunnel project on the High Speed Rail, which will be completed by the middle of 2016. This JV is in close discussion with MTRC to minimize the current substantial loss. Our shareholders may have read in newspapers that on our project for MTR at Diamond Hill Station, our JV partner, Sembawang, ran into severe financial problems in Singapore to the extent that they were unable to pay their staff salaries! Under the contract we had no option but to take over their share of work, which we have done. In the process, although, we suffered a loss due to the withdrawal of Sembawang, we have managed to maintain progress and eventually we can recover the loss.

This reminds us that in future, we should be extra careful in selecting our joint venture partners. Hopefully going forward, Build King will be able to prequalify and win major civil engineering projects on our own.

The turnover of our Building Division was HK\$1.2 billion, an increase of 10% over last year. However, I am not so sure we can again achieve a meaningful increase in 2016 and a lot will depend on how successful we will be in winning new projects.

Unfortunately despite our efforts we still cannot achieve a breakthrough in obtaining a Housing Authority NW2 license. This will depend on successfully completing a major residential project for which we will continue to search.

Chairman's Letter

Looking at the performance of our new subsidiaries during the year, Titan Foundation Limited, our piling and earthworks company, achieved a turnover of HK\$164 million with an outstanding value of work at HK\$1.2 billion. Integral E&M Engineering Limited and Build King Interior & Construction Limited (formerly known as Yat Hing Decoration Works Limited), our fit-out company, were both successful in securing largely in-house work and their operations are not fully established. Although neither are showing a profit this year, the signs are encouraging. Given time, we aim to grow all our subsidiaries such that together they can contribute HK\$1,000 million in turnover with over 6% profit. We all realise this will demand dedication and focus, but I am confident we should be able to reach this stage in a few years.

With the increase in turnover in the year, our monthly staff numbers have increased substantially. In 2014 our headcount was 1,500 and by the end of 2015 this had again increased to over 1,700.

Our performance on site safety is something of which our shareholders should be proud. There were again no fatalities and our accident incidence rate was well below the industry average, despite the growth in headcount. For 2016, we will raise our target again, aiming to make the Build King Group one of the best performing contractors in town though not one of the biggest.

Outlook

Last year, I reported that our five year plan is by 2019 to achieve a turnover of HK\$6 billion with net 3+% profit. Given the Group turnover last year, I am cautiously optimistic that we are on track to achieve this. But this industry is known for its volatility and a lot will depend on performance of our Building Division as well as our new subsidiaries. One of the benefits of the increase in turnover is that our head office overhead is now reduced to around 3% of turnover only, a truly remarkable achievement.

Our balance sheet is also much improved. The shareholders' equity is now HK\$422 million giving us comfort that we should be able to weather storms that are bound to hit in the future. I am hoping that in 5 years' time, we can again double our balance sheet.

During the past few years, we have encountered a number of difficulties which have adversely affected our results. We are continuing to try our best to strengthen the control to minimize such occurrences in future, but shareholders should be aware that the construction business does carry uncertainty and sometimes some volatility seems inevitable.

However, all in all, I am confident of our short-term prospects but remain cautious about the longer-term performance. Inevitably we will have to look outside Hong Kong for future growth which will surely not be easy. So I am now actively considering how and when we should make such a move.

Environmental Infrastructure Project

Our Wuxi Plant has again performed well with a net contribution to the Group's bottom line of around HK\$9 million. The good news is that finally, in April 2016, we are permitted to raise our sewage treatment price by RMB15 cents, which will equate to an additional income of RMB2 million p.a. and should increase the annual profit. Last year, we treated 40,000 ton/day, again a slight increase of 8% over 2014. Hopefully the amount of sewage will also go up again during 2016.

You may be aware that we signed an agreement to invest in an existing district heat provider in Dezhou of Shandong Province taking a 49% equity interest in the company, the maximum allowable for a foreign owned company. Provided we can identify the right opportunities, we aim to take up one or two more such projects in 2016.

Chairman's Letter

Together with our sewage treatment plant, these projects will provide a steady long-term income stream for the Group and will again help to smooth out the ups and downs of construction business. It is also my plan to seek construction related businesses in which to invest, in order to bring a steady profit for the Group.

Investments

Our gain in investment last year was HK\$3 million. Given the current market situation, it should be the right time now to invest in the equity market where the long-term prospects must be good. However, as we have lot investment opportunities in Construction as well as environmental projects, the amount of investment, even if that takes place, will be of limited amount.

CORPORATE GOVERNANCE

Communication with Shareholders

I have been 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 want to raise and so I strongly encourage shareholders to attend the AGM. This is the occasion where the management and owners of the company can discuss the business face to face.

Dividend Policy

This year I am pleased to advise that we are able to distribute a dividend of HK1.5 cents per share, which is again roughly 20% of our net profit attributable to the shareholders. I feel the payout ratio of 20 % is appropriate in view of our financial situation and likely need for cash.

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

18 March 2016

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

Overall Results

For the year 2015, the Group's turnover increased by 41% from HK\$3,237 million to HK\$4,572 million; the profit for the year also increased by 79%, from HK\$53 million to HK\$94 million.

The significant improvement of the results was attributable to increasing turnover and the healthy margin of major projects awarded in past two years. Although we encountered difficulties in two railway projects, the gross profit margin was maintained as healthy and only dropped slightly from 6.8% to 6%. The partner of the joint venture project Diamond Hill Station of Shatin Central Link withdrew due to its financial difficulties in Singapore and defaulted the repayment of the loan advanced by the joint venture; the budget profit of this project is now unlikely to be achieved. On Contract 824 for MTR Express Rail Link, we allowed an additional provision for non-recovery of cost overruns after lengthy, yet unsettled, negotiation with the client. Despite the expansion of the operation, the head quarter supporting departments took various measures to enhance the efficiency and contained the increase of administrative expense at 11% only. Overall, the profit to turnover ratio was improved from 1.6% to 2.1%.

The Group secured 13 new projects during the year with a total contract sum of HK\$5 billion. As at the date of this report, the outstanding value of contracts on hand was HK\$11 billion.

The outlook of construction industry in the next few years is not too promising, as the amount in infrastructure will be reduced. With the gradual completion of many major ongoing projects, the industry is looking forward to the rolling out of new infrastructure projects (just to name a few – the Tseung Kwan O - Lam Tin Tunnel, Central Kowloon Route, Route 6, the relocation of Sha Tin Sewage Treatment Plant). The earliest would be the third runway which is 3 years away. However, amid the adversarial political climate, the industry sees huge uncertainty in getting approval of the funding in Legislative Council. More, although the prices of oil and construction materials have dropped substantially in 2015, the construction cost in Hong Kong remains high due to labour shortage problem, high engineering and contractual risks and onerous environmental compliance. These probably explain why we saw in 2015 some desperate contractors won projects by cut throat prices.

Leveraged on outstanding contracts on hand which are sufficient for workload in 2016 and part of 2017, we will not relax our cautious attitude toward pricing tenders despite of the competitive market and continue to focus on only those projects that we have an edge and will be profitable with healthy cashflow. To face the many challenges ahead, the group has been looking at lean construction for quite some time with a view to bring in new technology and at the same time encourage innovative ideas to enable the group to remain competitive in the market.

On current projects, overall progress was satisfactory. The projects awarded in 2015 including the foundation works for a hospital, site formation and infrastructural works of Liangtang/Heung Yuen Wai boundary control point and the site formation work of Lam Tei Quarry started off smoothly in last quarter and the subletting costs were within budget. The two joint venture projects for Central – Wan Chai Bypass ("CWB") packages for the Government also progressed in accordance with the respective programmes. The CWB C1 at Hong Kong Exhibition and Convention Centre will complete in mid 2016; the CWB C3 at Wanchai West continued the seawall installation works and started the substructure works of ventilation building. The three projects for Shatin Central Link, namely Kai Tak Station, Diamond Hill Station and Hung Hom North Approach Tunnel are in different phases. The structural work of Kai Tak Station has completed and the architectural and E&M works are in progress. At Diamond Hill Station, despite the withdrawal of the partner, the works have not been stalled. With the completion of excavation work, the construction of station structure and enhancement works are well under control. At North Approach Tunnel in Hung Hom, open excavation works at various fronts are progressing within programme. At Contract 824 for MTR Express Rail Link despite the unsatisfactory financial results, the tunnel and road works have substantially completed and buildings works are in progress with target completion in mid 2016.

Management Discussion and Analysis

During the year, the building division successfully completed two projects namely the development work of Hang Seng Management College and construction of Disciplined Services Quarter for ASD. For the ongoing projects, the reprovisioning of the Harbour Road Sports Centre and Wan Chai Swimming Pool has completed the phase 1 and started the phase 2 for the demolition of the sports ground. It will complete in May 2017. This year, the building division won a project for MTRC to build a five storey commercial complex at Tsing Yi with contract sum of over HK\$700 million. It commenced in May 2015 and target to complete in June 2017.

In PRC, the sewage treatment plant at Wuxi City maintained treatment volume steadily increasing and recorded a mild increase of 7% of profit. During the year, we ventured into a new business – central heating in northern China, by acquiring 49% of equity interest in a company operating in Dezhou, Shan Dong Province at a price of RMB34,710,000. We expect the acquisition will complete in April 2016 and the new investment will provide a stable income streams to the Group.

Employees and Remuneration Policies

As at 31 December 2015, the Group had a total of 1,744 employees and total remuneration for the year ended 31 December 2015 was approximately HK\$703 million. Competitive remuneration packages are structured for each employee commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as performance of the individual.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2015, the Group had liquid assets of HK\$828 million (as at 31 December 2014: HK\$437 million) comprising held-for-trading investments of HK\$27 million (as at 31 December 2014: HK\$26 million) and bank balances and cash of HK\$801 million (as at 31 December 2014: HK\$411 million).

As at 31 December 2015, the Group had a total of interest bearing borrowings of HK\$211 million (as at 31 December 2014: HK\$96 million) comprising bank loans of HK\$97 million (as at 31 December 2014: HK\$96 million) and the bonds of HK\$114 million (as at 31 December 2014: Nil) with following maturity profile:

	At 31 December 2015 HK\$ million	At 31 December 2014 HK\$ million
On demand or within one year	56	87
In the second year	26	4
In the third to fifth year inclusive	129	5
	211	96

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 financial instrument for hedging purpose. As at 31 December 2015, total borrowings of HK\$114 million (as at 31 December 2014: Nil) carried interest at fixed rate.

Management Discussion and Analysis

Capital Structure and Gearing

As at 31 December 2015, total equity was HK\$422 million (as at 31 December 2014: HK\$347 million) comprising ordinary share capital of HK\$124 million (as at 31 December 2014: HK\$124 million), reserves of HK\$297 million (as at 31 December 2014: HK\$222 million) and non-controlling interests of HK\$700,000 (as at 31 December 2014: HK\$1 million).

As at 31 December 2015, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 50% (as at 31 December 2014: 28%).

Pledge of Assets

As at 31 December 2015, bank deposits of the Group amounting to HK\$80,000 (31 December 2014: HK\$60,000) were pledged to banks for securing the banking facilities granted to the Group.

Contingent Liabilities

	At 31 December 2015 HK\$ million	At 31 December 2014 HK\$ million
Outstanding tender/performance/retention bonds in respect of construction contracts	297	234

Directors and Senior Management

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, age 63, has been the Chairman of the Company since 23 April 2004. He is a member of the Remuneration Committee and a member of the Nomination Committee of the Company. 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 (the “Stock Exchange”). 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 was the Honorary Treasurer of Hong Kong Construction Association. He has over 40 years of experience in civil engineering.

CHANG Kam Chuen, Desmond, age 50, 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 25 years of experience in accounting profession and financial management. Mr. Chang is responsible for the finance, human resources, information technology, administration and secretarial departments of the Group.

NON-EXECUTIVE DIRECTORS

David Howard GEM, age 75, has been appointed as a Non-executive Director of the Company since 9 August 2004. He had been a member of the Audit Committee of the Company since 29 July 2005 and resigned on 12 January 2011. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also a member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 45 years of experience with contractors in the management, design and construction of a wide variety of civil engineering and building projects in UK, Asia and Hong Kong. He was a past Vice President of The Hong Kong Construction Association and Chairman of The Civil Engineering Committee. He was also a past Chairman of the Civil Engineering Division of The Hong Kong Institution of Engineers and a past member of the Construction Advisory Board to the Hong Kong Government.

CHENG Chi Pang, Leslie, age 58, 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 Practising Accountants, the Taxation Institute of Hong Kong and a fellow member of Hong Kong Institute of Directors. He is a Certified Public Accountant practicing in Hong Kong and has over 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 and Tianjin Port Development Holdings Limited, the shares of these three companies are listed on the Main Board of the Stock Exchange. He was an Independent Non-executive Director of Nine Dragons Paper (Holdings) Limited up to his resignation on 3 March 2016, the shares of which are listed on the Main Board of the Stock Exchange. Prior to joining the New World Group, he was a senior manager of an international accounting firm.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

CHAN Chi Hung, Anthony, age 42, 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 is currently an Executive Director of EPI (Holdings) Limited, and an Independent Non-executive Director of China Minsheng Drawin Technology Group Limited (formerly known as South East Group Limited) and Milan Station Holdings Limited, and was once an Executive Director and the Managing Director of China Financial Leasing Group Limited, the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan was previously the Investment Manager of Springfield Financial Adv. Ltd. in charge of its private equity, fund-of-funds and fixed income investment portfolios. Prior to that, he was with J.P. Morgan Chase.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOW Ming Kuen, Joseph, OBE, JP, age 74, has been appointed as an Independent Non-executive Director since 23 April 2004. He is the Chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. He is a professional civil and structural engineer. He is also a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers and the Institution of Structural Engineers. He is the Chairman of Joseph Chow and Partners Limited, a professional consulting engineers firm. Dr. Chow served as President of The Hong Kong Institution of Engineers from 2001 to 2002 and Chairman of the Hong Kong Engineers' Registration Board from 1996 to 1998. Dr. Chow is an Hon Senior Superintendent of the Auxiliary Police Force. He served in many public services including Chairman of the Hong Kong Examinations Authority, Chairman of the Construction Workers Registration Authority, a member of Hospital Authority, Hong Kong Housing Authority and Hong Kong University Court. He is also an Independent Non-executive Director of Chevalier International Holdings Limited, Harbour Centre Development Limited and Road King, the shares of these three companies are listed on the Main Board of the Stock Exchange. He was an Independent Non-executive Director of Hsin Chong Construction Group Ltd up to his resignation on 1 October 2015, the shares of which are listed on the Main Board of the Stock Exchange.

HO Tai Wai, David, age 67, has been appointed as an Independent Non-executive Director since 8 September 2004. He is the Chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Ho has over 40 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of UK, The Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Ho holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He was an Independent Non-executive Director of Cinderella Media Group Limited up to his resignation on 22 September 2015, the shares of which are listed on the Main Board of the Stock Exchange.

LING LEE Ching Man, Eleanor, SBS, OBE, JP, age 68, has been appointed as an Independent Non-executive Director of the Company since 30 September 2014. She is the Chairwoman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee of the Company. She was an Independent Non-executive Director of Cinderella Media Group Limited up to her resignation on 22 September 2015, the shares of which are listed on the Main Board of the Stock Exchange. Mrs. Ling had over 30 years of management experience with one of the largest multinational group in Asia and is a Fellow of the Institute of Chartered Management. Mrs. Ling has retired but remains involved in public services such as the Law Reform Commission and the Medical Council. She is also active in charitable organizations, such as the Maggie's Cancer Caring Centre. She is a Vice Patron of the Community Chest.

Directors and Senior Management

SENIOR MANAGEMENT

CHEUNG Siu Lun, age 65, is responsible for the Group's business development. He is a Director of Build King Construction Limited ("BKCL", formerly known as Kaden Construction Limited), Build King Civil Engineering Limited ("Build King Civil", formerly known as Leader Civil Engineering Corporation Limited) and Build King (Zens) Engineering Limited ("Build King (Zens) Engineering", formerly known as Wai Kee (Zens) Construction & Transportation Company Limited). He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong. He is a member of the Institution of Civil Engineers and a fellow of The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK. He is a member of the Faculty Advisory Committee of the Faculty of Science and Technology of the Technological and Higher Education Institute of Hong Kong. He has over 40 years of experience in both civil engineering and building construction.

KWOK Chi Ko, Enmale, age 59, is responsible for the Group's contract administration and commercial management for all building and construction related businesses. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He holds an Engineering Doctorate Degree, a Master Degree in Arbitration & Dispute Resolution and a Master Degree in Laws. He is a Chartered Quantity Surveyor, a Registered Professional Surveyor (QS) and an Accredited Mediator and has been a Fellow Member of the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators. He has had over 30 years of experience in building and construction industry.

LEE Man Wai, age 54, is responsible for the Group's tendering activities. He was appointed as a Director of BKCL, Build King Civil and Build King (Zens) Engineering in March 2016. He has over 30 years of extensive experience in tendering and commercial management of civil engineering and building project in Hong Kong.

LIU Sing Pang, Simon, age 54, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He is a member of the Institution of Structural Engineers and a fellow member of the Hong Kong Institution of Engineer. He is also a Chartered Engineer of UK. He is Vice Chairman of Civil Engineering Committee of Hong Kong Construction Association. He is also a member of Appeal Tribunal Panel under the Buildings Ordinance, the Appeal Board Panel under the Construction Workers Registration Ordinance, the Committee on Technologist Training of Vocational Training Council and the Registered Contractors' Disciplinary Board Panel under the Buildings Ordinance. He has over 30 years of experience in civil engineering and building construction.

LUI Yau Chun, Paul, age 54, is responsible for the Group's civil and marine engineering operation in Hong Kong. He is a Director and the General Manager (Marine) of Build King (Zens) Engineering, a Director of BKCL, Build King Civil and Leader Marine Contractors Limited, and the General Manager of Leader Marine Cont. L.L.C. which was registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers, and of the Hong Kong Institution of Engineers. He has over 30 years of experience in civil and marine engineering.

SO Yiu Wing, Wilfred, age 41, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He holds a Bachelor degree in Civil Engineering from The University of Hong Kong. He is a member of The Hong Kong Institution of Engineers and a Registered Professional Engineer (CVL). He is a council member of Hong Kong Construction Association. He has over 15 years of experience in civil engineering construction.

TSANG Wing Ho, Francis, age 58, is responsible for the Group's building operation. He is a Director of BKCL and Build King Civil. He holds a Bachelor of Science degree in Civil Engineering from The City University, UK and a Master degree in General Business Administration from The University of Hull, UK. He is a member of The Institution of Civil Engineers and The Hong Kong Institution of Engineers. He has over 30 years of experience in the construction industry including construction supervision, design and project management.

Directors and Senior Management

SENIOR MANAGEMENT

TSUI Wai Tim, age 53, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He has over 30 years of experience in the construction industry. He is a Fellow of the Hong Kong Institution of Engineers, the Institution of Civil Engineers, the Hong Kong Institute of Construction Managers, the Hong Kong Institution of Highways and Transportation and a Member of the Hong Kong Institute of Real Estate Administrators. He is currently the Chairman of the Building Division of the Hong Kong Institution of Engineers, the Vice Chairman and Council Member of the Hong Kong Construction Association, a Member of the Pneumoconiosis Compensation Fund Board and a Council Member of the Hong Kong Institution of Highways and Transportation.

WU Siu Ho, age 63, is responsible for the Group's new business development. He is a Director of BKCL and Build King Civil. He is also the project director of MTR Contract No. SCL1108 Kai Tak Station and Associated Tunnels and MTR Contract No. SCL1106 Diamond Hill Station. He holds a Bachelor of Science Degree in Engineering from The University of Hong Kong. He has over 35 years of extensive experience in management of engineering companies. He is a member of The Institution of Mechanical Engineers and The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK.

YIU Cheuk Hung, Kenneth, age 50, is responsible for the Group's building operation in Hong Kong. He was appointed as a Director of BKCL in August 2015. He holds a Master Degree of Project Management. He is a member of the Chartered Institute of Building (UK) and the Hong Kong Institute of Construction Managers. He is a Chartered Builder and registered Construction Manager. He has over 25 years of experience in the construction industry including design, construction and project management.

YUE Pak Lim, age 79, is a Fellow of the Hong Kong Institution of Engineers. He is a Director of BKCL and Build King Civil and responsible for the Group's civil engineering operation in Hong Kong. He has over 50 years of extensive experience in management and construction of a wide variety of civil engineering and building projects in Hong Kong. Prior to joining the Group, he had been a Director of several sizeable construction companies in Hong Kong. He was once an Executive Director of Wai Kee.

Directors' Report

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 47 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the five largest customers of the Group together accounted for approximately 93% of the Group's turnover, with the largest customer accounted for approximately 57%, and the five largest suppliers of the Group together represented less than 12% by value of the Group's total purchases.

Except that a Director and his associate had nominal beneficial interest in one of the Group's five largest customers, none of the other 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 2015 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 37 and 38 respectively.

The Board recommends the payment of a final dividend of HK1.5 cents per ordinary share for the year ended 31 December 2015 to shareholders whose names appear in the register of members of the Company on Friday, 27 May 2016. The details of the final dividend are set out in note 13 to the consolidated financial statements.

Subject to the approval of shareholders at the forthcoming Annual General Meeting, it is expected that the payment of final dividend will be made on or before Friday, 24 June 2016.

CLOSURES OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting to be held on Thursday, 19 May 2016, the register of members of the Company will be closed from Tuesday, 17 May 2016 to Thursday, 19 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 16 May 2016.

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting. The record date for the proposed final dividend is on Friday, 27 May 2016. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 26 May 2016 to Friday, 27 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 25 May 2016.

Directors' Report

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the sections headed "Financial Highlights" on page 2, "Chairman's Letter" on pages 3 to 5, "Management Discussion and Analysis" on pages 6 to 8, "Corporate Governance Report" on pages 23 to 35, "Consolidated Financial Statements" on pages 37 to 102 and "Financial Summary" on pages 103. Description of the principal risks and uncertainties facing the Group can be found throughout this annual report.

SEGMENTAL INFORMATION

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

SHARE CAPITAL

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

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 41.

DISTRIBUTABLE RESERVES

The reserves of the Company which were available for distribution to the shareholders at 31 December 2015 were HK\$4,109,000.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2015, the Company has not entered into any equity-linked agreement.

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 103.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2015 are set out in note 31 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the Company's pension schemes are set out in note 43 to the consolidated financial statements.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Chow Ming Kuen, Joseph
Ho Tai Wai, David
Ling Lee Ching Man, Eleanor
Ng Chi Ming, James (Retired on 15 May 2015)

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

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. David Howard Gem, Dr. Cheng Chi Pang, Leslie and Mr. Ho Tai Wai, David shall retire from office by rotation at the forthcoming annual general meeting and are eligible for re-election. Dr. Cheng Chi Pang, Leslie has informed the Company that he will not offer himself for re-election. Mr. David Howard Gem and Mr. Ho Tai Wai, David, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence during the year ended 31 December 2015 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' Report

DIRECTORS' INTERESTS

As at 31 December 2015, the interests (including short positions) of the directors (the "Directors") and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carried voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, were as follows:

(I) The Company

Interests in Shares

Name of Director	Capacity/ Nature of interest	Number of Shares held		Percentage of shareholding (%)
		Long Position (Note)	Short position	
Zen Wei Peu, Derek	Personal	123,725,228	–	9.96
Chang Kam Chuen, Desmond	Personal	1,500,000	–	0.12
David Howard Gem	Personal	900,000	–	0.07
Cheng Chi Pang, Leslie	Personal	1,170,000	–	0.09

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

(II) Associated Corporations

Interests in Shares

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

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

Directors' Report

DIRECTORS' INTERESTS (Continued)

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director and everyone of their heirs, executors and administrators shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has arranged appropriate directors and officers liability insurance for its Directors and officers.

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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2015, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial Shareholder	Capacity/Nature of interest	Number of Shares held and percentage of shareholding			
		Long position (Note 1)		Short position	
		Number of Shares	%	Number of Shares	%
Top Horizon Holdings Limited ("Top Horizon") (Note 2)	Beneficial owner	639,435,033	51.49	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note 3)	Corporate	639,435,033	51.49	–	–
Wai Kee (Note 4)	Corporate	639,435,033	51.49	–	–

Notes:

1. Long position in the Shares.
2. Top Horizon is a direct wholly owned subsidiary of Wai Kee (Zens). Mr. Zen Wei Peu, Derek is a director of Top Horizon.
3. Wai Kee (Zens) is deemed to be interested in the Shares through its interests in Top Horizon. Mr. Zen Wei Peu, Derek is a director of Wai Kee (Zens).
4. Wai Kee (Zens) is a direct wholly owned subsidiary of Wai Kee. Accordingly, Wai Kee is deemed to be interested in the Shares through its interests in Wai Kee (Zens). Mr. Zen Wei Peu, Derek is the Vice Chairman, the Chief Executive Officer and an executive director of Wai Kee, and Dr. Cheng Chi Pang, Leslie is a non-executive director of Wai Kee.

Save as disclosed above, as at 31 December 2015, no other person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Directors' Report

CONNECTED TRANSACTIONS

(1) Sub-Contract with Faith Oriental Investment Limited (“Faith Oriental”)

As announced on 21 July 2015, Kaden-Titan JV (being a joint venture between two wholly-owned subsidiaries of the Company) entered into a sub-contract (the “Sub-Contract”) with Faith Oriental Investment Limited (being the main-contractor of the Contract No. GE/2014/01 for The Rehabilitation of Lam Tei Quarry – Extended Works) in respect of the Sub-Contract Works for the period of 2,555 calendar days (or approximately seven years) at a sub-contract price of HK\$532,635,000 (subject to adjustments in respect of any authorised variations to specific Sub-contract Works that will be separately agreed between the parties if and when they arise). As Faith Oriental is an indirect wholly-owned subsidiary of Wai Kee, a substantial shareholder of the Company and Wai Kee is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Sub-Contract constitute a connected transaction of the Company under the Listing Rules. As the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Sub-Contract exceed 5%, the transactions contemplated under the Sub-Contract are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The transactions are disclosed in note 44 to the consolidated financial statements.

(2) Framework Agreement with Wai Kee

On 18 November 2013, the Company entered into a framework agreement (the “Framework Agreement”) with Wai Kee, which is a connected person of the Company by virtue of its being a substantial shareholder of the Company, whereby the Group may, but is not obliged to, purchase ready mixed concrete (“Concrete”) from Wai Kee (or its subsidiaries and/or associates) from time to time during the period from 1 January 2014 to 31 December 2016 for the Group's construction projects, subject to the terms and conditions of the Framework Agreement. The maximum aggregate value of the contract sum in respect of the purchase of Concrete by the Group from Wai Kee (or its subsidiaries and/or associates) for the periods concerned under the Framework Agreement are subject to annual caps and shall not exceed the amounts set out below.

Period	Total value not exceeding
1 January 2014 – 31 December 2014	HK\$32,000,000
1 January 2015 – 31 December 2015	HK\$50,000,000
1 January 2016 – 31 December 2016	HK\$43,000,000

During the year, the relevant maximum aggregate value of the contracts was approximate HK\$36,341,000 and the transactions are disclosed in note 44 to the consolidated financial statements.

Directors' Report

CONNECTED TRANSACTIONS (Continued)

(3) Framework Agreement with Grandeur Building Material (Holdings) Limited ("Grandeur Building")

On 14 February 2014, Leader Marine Contractors Limited ("Leader Marine", a wholly-owned subsidiary of the Company) entered into a framework agreement (the "Framework Agreement") with Grandeur Building, a wholly-owned subsidiary of Wai Kee, for the continuing provision of Transportation Service from time to time for a period from 1 March 2014 to 31 December 2016, subject to the terms and conditions of the Framework Agreement. The maximum total value of the contract sum in respect of the continuing provision of Transportation Service by Leader Marine to Grandeur Building for the periods concerned under the Framework Agreement are subject to proposed caps and shall not exceed the amounts set out below.

Period	Total value not exceeding
1 March 2014 – 31 December 2014	HK\$17,000,000
1 January 2015 – 31 December 2015	HK\$21,000,000
1 January 2016 – 31 December 2016	HK\$21,000,000

During the year, the relevant maximum aggregate value of the contracts was approximate HK\$11,027,000 and the transactions are disclosed in note 44 to the consolidated financial statements.

The continuing connected transactions mentioned in (2) to (3) above have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

- (i) in the ordinary course and usual course of business of the Company;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and
- (iv) within the caps as disclosed in the relevant announcements.

The Company has engaged the auditor of the Company to report the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors' Report

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

(1) Term loan facility of up to HK\$25 million

On 8 June 2015, the Company as a guarantor executed a guarantee in favour of a bank. The bank had agreed to grant Build King Civil Engineering Limited (formerly known as Leader Civil Engineering Corporation Limited), a wholly owned subsidiary of the Company, a term loan facility of up to HK\$25 million (the "Banking Facility") with final repayment date falling twenty-four months after the date of first advance of the Banking Facility. Throughout the life of the Banking Facility, the Company shall remain directly or indirectly at least 50% beneficially owned by Wai Kee.

(2) General banking facility of up to HK\$18 million

On 7 September 2015, Build King Construction Limited ("BKCL", formerly known as Kaden Construction Limited), a wholly owned subsidiary of the Company, confirmed its acceptance of a facility letter (the "Facility Letter") issued by a bank (the "Bank"). Pursuant to the Facility Letter, the Bank agreed to grant BKCL a general banking facility of up to HK\$18 million (the "Banking Facility") repayable by 48 monthly instalments each inclusive of interest, commencing on the date falling one month from the utilization date. Throughout the life of the Banking Facility, Wai Kee shall beneficially hold not less than 50% interest (directly or indirectly) in the issued share capital of the Company.

Save as disclosed above, as at 31 December 2015, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

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

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

Name of Director	Details of Changes
Chang Kam Chuen, Desmond	Mr. Chang's annual salary has been revised from HK\$2.05 million to HK\$2.11 million with retrospective effect from 1 July 2015.
Cheng Chi Pang, Leslie	<p>Dr. Cheng, as a certified public accountant (practising), and a firm of certified public accountants of which he is senior partner have been reprimanded by the disciplinary committee of the Hong Kong Institute of Certified Public Accountants (the "Institute"). Both Dr. Cheng and his firm have been required to pay penalty and costs. The disciplinary proceedings were brought on a complaint that they failed or neglected to observe, maintain or otherwise apply professional standards issued by the Institute, and involved a finding of multiple breaches of audit and accounting standards by the firm in relation to the audit of certain financial statements of a listed company, for which Dr. Cheng acted as the engagement quality control reviewer. However, there was no allegation or finding of fraud or dishonesty made against Dr. Cheng or his firm.</p> <p>He has resigned as an independent non-executive director of Nine Dragon Paper (Holdings) Limited (Stock Code: 2689) with effect from 3 March 2016.</p>
Chan Chi Hung, Anthony	Mr. Chan is an independent non-executive director of South East Group Limited (Stock Code: 726). On 18 August 2015, the shareholders of this company passed a special resolution approving the change of company name to China Minsheng Drawin Technology Group Limited and the adoption of the Chinese name of 中民築友科技集團有限公司 as its secondary name in place of 東南國際集團有限公司. The Certificate of Incorporation on the Change of Name and the Certificate of Secondary Name was been issued by the Registrar of Companies in Bermuda on 10 September 2015.

Directors' Report

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

Name of Director	Details of Changes
Chow Ming Kuen, Joseph	Dr. Chow has resigned as an independent non-executive director of Hsin Chong Construction Group Ltd. (Stock Code: 404) with effect from 1 October 2015.
Ho Tai Wai, David	Mr. Ho has resigned as an independent non-executive director of Cinderella Media Group Limited (Stock Code: 550) with effect from 22 September 2015.
Ling Lee Ching Man, Eleanor	Mrs. Ling has resigned as an independent non-executive director of Cinderella Media Group Limited (Stock Code: 550) with effect from 22 September 2015.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2015.

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 approximate HK\$14,000.

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 2015 and up to 18 March 2016, 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

18 March 2016

Corporate Governance Report

CORPORATE GOVERNANCE CODE

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

Throughout the year of 2015, the Company has complied with the code provisions of Corporate Governance Code (the "Code") set out in Appendix 14 of the Listing Rules, except for code provision A.2.1 in respect of the separate roles of the chairman and chief executive officer.

Mr. Zen Wei Peu, Derek has been both the Chairman and Chief Executive Officer of the Company. In addition to his responsibilities as Chairman overseeing the function of the Board and formulating overall strategies and policies 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.

THE BOARD

Composition

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

Board of Directors		
Executive Directors	Non-executive Directors	Independent Non-executive Directors
Zen Wei Peu, Derek <i>(Chairman, Chief Executive Officer and Managing Director)</i>	David Howard Gem	Chow Ming Kuen, Joseph
Chang Kam Chuen, Desmond	Cheng Chi Pang, Leslie Chan Chi Hung, Anthony	Ho Tai Wai, David Ling Lee Ching Man, Eleanor

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

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

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

Corporate Governance Report

THE BOARD (Continued)

Appointment and Re-election

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

Non-executive Directors

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Each Non-executive Director (including Independent Non-executive Director) of the Company has entered into a Letter of Appointment with the Company for a specific term not more than three years, subject to re-election at the general meeting.

Independence of Independent Non-executive Directors

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

Role and Delegation

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

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

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

Corporate Governance Report

THE BOARD (Continued)

Role and Delegation (Continued)

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

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of the Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct manual applicable to employees and the Directors; and
- to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

The internal audit team has also carried out a compliance review on the Code and reported to the Board that the Group has properly followed the requirements of the Code.

The Group has adopted a number of policies and procedures of the Company, all of which have been documented and communicated to the Directors and employees via Employees' Handbooks and internal memorandum to ensure good corporate practices and high standard of business conducts and ethics of the Group. The effectiveness of these policies is reviewed on a regular basis.

Corporate Governance Report

THE BOARD (Continued)

Board Meetings

The Board meets regularly at least four times each year and additional meetings are arranged if and when required. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. During the year, the attendance records of individual Directors at the Board meetings, meetings of three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee, the annual general meeting held on 15 May 2015 and the special general meeting held on 14 August 2015 are set out below:

Name of Director	Board Meeting	Meetings attended/held			Annual General Meeting held on 15 May 2015	Special General Meeting held on 14 August 2015
		Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting		
Executive Directors						
Zen Wei Peu, Derek	6/6	-	1/2	3/3	1	1
Chang Kam Chuen, Desmond	6/6	-	-	-	1	1
Non-executive Directors						
David Howard Gem	6/6	-	-	-	0	0
Cheng Chi Pang, Leslie	5/6	-	-	-	1	0
Chan Chi Hung, Anthony	5/6	-	-	-	1	0
Independent Non-executive Directors						
Chow Ming Kuen, Joseph	6/6	4/4	2/2	3/3	1	0
Ho Tai Wai, David	6/6	4/4	2/2	3/3	1	1
Ling Lee Ching Man, Eleanor	6/6	2/2*	1/1*	1/1*	1	1
Ng Chi Ming, James (retired on 15 May 2015)	2/2	2/2	1/1	2/2	1	-

Note:

"-": Not Applicable

"**": Mrs. Ling Lee Ching Man, Eleanor was appointed as the Chairwoman of the Nomination Committee, a member of the Audit Committee and the Remuneration Committee of the Company with effect from 15 May 2015.

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

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

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

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

Corporate Governance Report

THE BOARD (Continued)

Induction and Continuous Professional Development

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

During the year ended 31 December 2015 and up to the date of this report, no new Director is appointed.

All Directors are requested to provide the Company with their respective training records pursuant to the Code. Trainings received by each of the Directors during the period from 1 January 2015 to 31 December 2015 are summarized as follows:

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

A: attending seminars and/or conference and/or forum

B: reading newspapers, journals and updates relating to the economy, general business, accounting, laws, rules and regulations, etc.

Directors' and Officers' Liability Insurance and Indemnity

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

Corporate Governance Report

THE BOARD (Continued)

Chairman and Chief Executive Officer

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

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

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

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

Board Diversity Policy

The Board has adopted a Board Diversity Policy. The Policy aims to set out the approach to achieve diversity in the Board to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

BOARD COMMITTEES

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

Audit Committee

Composition

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

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

Role and Function

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

Summary of Work Done

The following is a summary of major work performed by the Audit Committee during the year ended 31 December 2015 and up to the date of this report:

- Approval of remuneration and terms of engagement of the external auditor;
- Review of the annual results of the Group for the years ended 31 December 2014 and 2015, and the interim results of the Group for the six months ended 30 June 2015;
- Review of its terms of reference;
- Review of the Group's financial information, financial reporting procedures, internal control systems, risk management, and financial and accounting policies and practices;
- Review of external auditor's independence and objectivity and the effectiveness of the audit process, and review of policy on engaging the external auditor to supply non-audit services;
- Review of the audit plan for financial year ended 31 December 2015;
- Review of internal/external auditor's significant findings and recommendations, and monitoring of the subsequent implementation;
- Recommendation to the Board to re-appoint the external auditor at the 2015 and 2016 annual general meetings;
- Review of the effectiveness of the internal audit function of the Company;
- Review of the 2016 internal audit plan;
- Review of the findings in the internal control reports;
- Review of reporting mechanism for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters related to the Company;
- Review of the continuing connected transactions of the Company; and
- Meetings with the external auditor, in the absence of Executive Directors and management.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination Committee

Composition

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

Role and Function

The Nomination Committee was established to ensure that there are deliberative, considered and transparent procedures for the appointment of the Directors. The duties of this Committee include reviewing the structure, size and composition (including but not limited to gender, age, cultural background, educational background, skills, knowledge, professional experience and/or length of service) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting, or making recommendations to the Board on the selection of, individuals nominated for directorships based on merit against objective criteria and with due regard for the benefits of diversity on the Board.

Summary of Work Done

The following is a summary of the work performed by the Nomination Committee during the year ended 31 December 2015 and up to the date of this report:

- Review of the structure, size and composition (including but not limited to gender, age, cultural background, educational background, skills, knowledge, professional experience and/or length of service) of the Board;
- Review of its constitution and terms of reference;
- Review of the Board Diversity Policy and the measurable objectives for implementing diversity on the Board;
- Assessment of the independence of the Independent Non-executive Directors; and
- Determination of the rotation of the Directors for the annual general meeting to be held in May 2016.

Nomination Procedures

Appointments of new Directors are first considered by the Nomination Committee. In considering the appointment of a Director, this Committee applies criteria such as relevant experience, professional and educational background, as well as the diversity in the Board. The recommendations of this Committee are then put to the Board for consideration and approval. Thereafter, any Director appointed by the Board is subject to re-election at the general meeting after his/her appointment.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Remuneration Committee

Composition

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

Role and Function

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

Summary of Work Done

The following is a summary of the work performed by the Remuneration Committee during the year ended 31 December 2015 and up to the date of this report:

- Approval of year end bonus of Executive Directors for 2014 and 2015;
- Approval of emoluments of Executive Directors (where Mr. Zen Wei Peu, Derek abstained from voting in determining his own remuneration) and senior management; and
- Approval of salary adjustment in 2015 and 2016;

Remuneration policy

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

The remuneration of a Director is determined with reference to his duties and responsibilities with the Company and the prevailing market situation. Details of the emoluments of Directors for the year ended 31 December 2015 are set out in note 10 to the consolidated financial statements of this annual report. The emoluments paid to senior management for the year ended 31 December 2015 were within the following bands:

	Number of Senior Management
up to HK\$2,000,000	2
HK\$2,000,001 to HK\$3,000,000	7
HK\$3,000,001 to HK\$4,000,000	1

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' Securities Transactions. All Directors have confirmed, following specific enquiry, that they have complied with the Model Code throughout the year ended 31 December 2015.

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

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

EXTERNAL AUDITOR'S REMUNERATION AND REPORTING RESPONSIBILITIES

Messrs. Deloitte Touche Tohmatsu has been re-appointed as the Company's external auditor at the annual general meeting of 2015 until the conclusion of the next annual general meeting.

The fees paid/payable to external auditor for audit and non-audit services for the year ended 31 December 2015 are as follows:

Type of services	Fee paid/payable HK\$
Audit	1,813,000
Non-audit services	
Interim review	459,000
Other services	340,000
Total	<u>2,612,000</u>

The statement of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out on page 36 in the Independent Auditor's Report forming part of this annual report.

Corporate Governance Report

INTERNAL CONTROL

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

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

The Audit Committee, which was delegated by the Board, has reviewed and evaluated, via the internal audit team, the effectiveness of the Group's internal control system put in place by management covering all material controls, including financial, operational and compliance controls as well as risk management functions of the Company and its subsidiaries for the year ended 31 December 2015. The Audit Committee considered the internal control system of the Company and its subsidiaries was effective and adequate.

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

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

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

Corporate Governance Report

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

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

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

- Construction Industry Safety Award Scheme 2014 – 2015 – Meritorious Prize in Safety Teams Category presented by Labour Department, Hong Kong SAR Government
- 2 numbers of Safety & Health Improvement Partnership Scheme (SHIPS) – Certificate of Recognition for Good Housekeeping presented by Occupational Safety and Health Council
- Innovative Safety Initiative Award 2015 – Safety Management System, Training and Promotion Category (Bronze Award) (Enhanced Confined Space Safety Management System & Provision) presented by Construction Industry Council
- Innovative Safety Initiative Award 2015 – Health and Welfare Category (Silver Award) (Mini Size of Self-fabricated Deodorization Device) presented by Construction Industry Council
- Innovative Safety Initiative Award 2015 – Health and Welfare Category (Gold Award) (Construction Site Cease Smoking Award Scheme) presented by Construction Industry Council
- Considerate Contractors Site Award Scheme (Bronze Award) presented by Development Bureau, Hong Kong SAR Government
- 2 numbers of Considerate Contractors Site Award Scheme (Merit Award) presented by Development Bureau, Hong Kong SAR Government
- Outstanding Environmental Management & Performance Awards (Merit Award) presented by Development Bureau, Hong Kong SAR Government
- 2014 Workplace Hygiene Competition – Outstanding Award of Contractor Worksites (Extension Projects) presented by MTR Corporation Ltd
- 3 numbers of HKCA Safety Merit Award presented by The Hong Kong Construction Association
- 2 numbers of HKCA Environmental Merit Award presented by The Hong Kong Construction Association

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

Corporate Governance Report

SHAREHOLDERS' RIGHTS

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

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

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

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

INVESTOR RELATIONS

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

Independent Auditor's Report



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 37 to 102, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2016

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Revenue	5	4,571,629	3,237,341
Cost of sales		(4,295,306)	(3,017,594)
Gross profit		276,323	219,747
Investments and other income	7	8,867	5,079
Increase (decrease) in fair value of held-for-trading investments		807	(4,031)
Administrative expenses		(180,656)	(163,334)
Finance costs	8	(8,635)	(3,559)
Share of results of associates		360	619
Profit before tax	9	97,066	54,521
Income tax expense	12	(2,884)	(1,907)
Profit for the year		94,182	52,614
Profit for the year attributable to:			
Owners of the Company		94,307	55,203
Non-controlling interests		(125)	(2,589)
		94,182	52,614
		HK cents	HK cents
Earnings per share	14		
– Basic		7.6	4.5

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
Profit for the year	94,182	52,614
Other comprehensive expense		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(6,319)	(2,557)
Total comprehensive income for the year	87,863	50,057
Total comprehensive income attributable to:		
Owners of the Company	88,207	52,739
Non-controlling interests	(344)	(2,682)
	87,863	50,057

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment	15	174,252	110,550
Intangible assets	16	65,143	68,632
Goodwill	17	30,554	30,554
Interest in a joint venture	19	–	–
Available-for-sale investment	20	–	–
Other financial asset	21	44,624	49,421
Other receivable	22	23,522	–
		338,095	259,157
Current assets			
Amounts due from customers for contract work	23	485,303	461,531
Debtors, deposits and prepayments	24	928,667	779,897
Amounts due from fellow subsidiaries	25	–	1,636
Amounts due from associates	25	7,606	7,590
Amount due from a joint venture	25	321	321
Amounts due from other partners of joint operations	25	24,366	139,840
Held-for-trading investments	26	26,611	25,804
Tax recoverable		2,682	148
Pledged bank deposits	27	80	60
Bank balances and cash	27	800,834	410,873
		2,276,470	1,827,700
Current liabilities			
Amounts due to customers for contract work	23	664,790	648,641
Creditors and accrued charges	28	1,239,549	801,126
Amount due to an intermediate holding company	29	11,400	9,242
Amounts due to fellow subsidiaries	29	5,506	–
Amount due to a joint venture	29	1,142	1,142
Amounts due to other partners of joint operations	29	12,119	138,304
Amounts due to non-controlling interests	29	3,094	3,094
Amount due to an associate	30	14,369	13,264
Tax payable		3,008	1,698
Bank loans – due within one year	31	96,540	95,758
		2,051,517	1,712,269
Net current assets		224,953	115,431
Total assets less current liabilities		563,048	374,588

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Capital and reserves			
Ordinary share capital	32	124,188	124,188
Reserves		297,432	221,643
Equity attributable to owners of the Company		421,620	345,831
Non-controlling interests		724	1,068
Total equity		422,344	346,899
Non-current liabilities			
Deferred tax liabilities	34	5,750	5,750
Obligations in excess of interests in associates	35	16,173	16,533
Amount due to an associate	30	4,807	5,406
Bonds	36	113,974	–
		140,704	27,689
		563,048	374,588

The consolidated financial statements on pages 37 to 102 were approved and authorised for issue by the Board of Directors on 18 March 2016 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 2015

	Ordinary share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Other reserve HK\$'000 (Note a)	Special reserve HK\$'000 (Note b)	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 2014	124,188	14,186	16,811	(432)	(63,141)	4,290	203,910	299,812	3,239	303,051
Profit for the year	-	-	-	-	-	-	55,203	55,203	(2,589)	52,614
Exchange differences arising on translation of foreign operations	-	-	(2,464)	-	-	-	-	(2,464)	(93)	(2,557)
Total comprehensive (expense) income for the year	-	-	(2,464)	-	-	-	55,203	52,739	(2,682)	50,057
Acquisition of additional interest in a subsidiary	-	-	-	(511)	-	-	-	(511)	511	-
Dividend paid	-	-	-	-	-	-	(6,209)	(6,209)	-	(6,209)
At 31 December 2014	124,188	14,186	14,347	(943)	(63,141)	4,290	252,904	345,831	1,068	346,899
Profit for the year	-	-	-	-	-	-	94,307	94,307	(125)	94,182
Exchange differences arising on translation of foreign operations	-	-	(6,100)	-	-	-	-	(6,100)	(219)	(6,319)
Total comprehensive (expense) income for the year	-	-	(6,100)	-	-	-	94,307	88,207	(344)	87,863
Dividend paid	-	-	-	-	-	-	(12,418)	(12,418)	-	(12,418)
At 31 December 2015	124,188	14,186	8,247	(943)	(63,141)	4,290	334,793	421,620	724	422,344

Notes:

- The other reserve represents the excess of the consideration paid over the additional interests in net assets of respective acquired subsidiaries.
- 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 2015

	2015 HK\$'000	2014 HK\$'000
Operating activities		
Profit before tax	97,066	54,521
Adjustments for:		
Finance costs	8,635	3,559
Amortisation of intangible assets	1,431	1,519
Depreciation of property, plant and equipment	22,275	15,659
Impairment loss recognised on goodwill	–	2,177
Share of results of associates	(360)	(619)
Gain on disposal of property, plant and equipment	(321)	(280)
(Increase) decrease in fair value of held-for-trading investments	(807)	4,031
Dividends from held-for-trading investments	(2,247)	(1,933)
Interest on bank deposits	(426)	(96)
Interest on other financial asset	(1,223)	(1,347)
Interest on held-for-trading investments	–	(287)
Gain on bargain purchase arising from acquisitions	(233)	–
Operating cash flows before movements in working capital	123,790	76,904
Decrease in other financial asset	4,797	2,969
Decrease (increase) in amounts due from customers for contract work	23,712	(114,120)
(Increase) decrease in debtors, deposits and prepayments	(112,191)	5,763
Decrease in held-for-trading investments	–	15,113
(Decrease) increase in amounts due to customers for contract work	(42,441)	4,689
Increase in creditors and accrued charges	389,576	201,977
Cash generated from operations	387,243	193,295
Interest on other financial asset	1,223	1,347
Interest on held-for-trading investments received	–	287
Interest on bank deposits received	849	431
Income taxes (paid) refunded	(4,108)	1,125
Net cash from operating activities	385,207	196,485

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 HK\$'000	2014 HK\$'000
Investing activities			
Advance to associates		(16)	(49)
Dividends from held-for-trading investments		2,247	1,933
Purchases of property, plant and equipment		(102,508)	(72,838)
Advances to other partners of joint operations		(13,690)	(560)
Placement of pledged bank deposits		(20)	(30)
Proceeds from disposal of property, plant and equipment		1,424	953
Net cash inflow arising on acquisitions			
of subsidiaries	45	18,038	–
Acquisition of a subsidiary	45	–	(8,000)
Net cash used in investing activities		(94,525)	(78,591)
Financing activities			
New banks loans raised		63,100	83,800
Repayment of bank loans		(62,318)	(82,539)
Interest paid		(7,835)	(3,089)
Advances from fellow subsidiaries		7,142	1,512
Advances from an intermediate holding company		2,158	2,017
Bonds issued, net		113,680	–
Dividend paid		(12,418)	(6,209)
Net cash from (used in) financing activities		103,509	(4,508)
Net increase in cash and cash equivalents		394,191	113,386
Cash and cash equivalents at beginning of the year		410,873	299,082
Effect of foreign exchange rate changes, net		(4,230)	(1,595)
Cash and cash equivalents at end of the year		800,834	410,873
Represented by:			
Bank balances and cash		800,834	410,873

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and joint venture are set out in notes 47, 35 and 19 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

HKFRS 9	Financial instruments ³
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ¹
Amendments to HKAS 27	Equity Method in Separate Financial Statements ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ¹
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle ¹

¹ Effective for accounting periods beginning on or after 1 January 2016.

² Effective for first annual financial statements beginning on or after 1 January 2016.

³ Effective for accounting periods beginning on or after 1 January 2018.

⁴ Effective for accounting periods beginning on or after a date to be determined.

HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

HKFRS 15 “Revenue from Contracts with Customers” (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The management of the Group anticipates that the application of HKFRS 15 in the future may affect the amounts reported and related disclosures. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 “Business Combinations”. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 “Income Taxes” regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 “Impairment of Assets” regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 11 may have an impact on the Group’s consolidated financial statements in future periods should such transactions arise.

Except as described above, the management anticipates that the application of the above new and revised HKFRSs will have no material impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new Hong Kong Companies Ordinance and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Hong Kong Companies Ordinance or Listing Rules but not under the new Hong Kong Companies Ordinance or amended Listing Rules are not disclosed in these consolidated financial statements.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries 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 subsidiaries. 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, a gain or loss is recognised in profit or loss and 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). 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: Derecognition and Measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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 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 at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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. 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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is 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 associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

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 or a joint venture. 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 of disposal) 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity sells or contributes assets to a joint operation in which a group entity is a joint operator, the Group is considered to be selling or contributing assets to the other parties to the joint operation, and gains and losses resulting from the sale or contribution are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity purchases assets from a joint operation in which a group entity is a joint operator, the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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.

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

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 income 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 on initial recognition.

Property, plant and equipment

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

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

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts

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

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

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

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

Service concession arrangements

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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.

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

Retirement benefit costs

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified 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, other receivable, debtors, amounts due from fellow subsidiaries, associates, a joint venture and other partners of joint operations, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

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

Impairment loss on financial assets

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

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

Impairment loss on financial assets

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

In respect of available-for-sale equity investment, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Financial liabilities and equity instruments

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

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

Financial liabilities

Financial liabilities (including creditors and accrued charges, amounts due to an intermediate holding company, fellow subsidiaries, an associate, a joint venture, other partners of joint operations and non-controlling interests and bank loans and bonds) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 are included in the consolidated statement of financial position at 31 December 2015 at HK\$32,858,000 (2014: 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 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 2015, the carrying amount of goodwill is HK\$30,554,000 (2014: HK\$30,554,000). Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 December 2015, no deferred tax asset has been recognised in the Group's consolidated statement of financial position in relation to unused tax losses of HK\$91,210,000 (2014: HK\$156,925,000) 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 will be recognised in profit or loss in the period in which such recognition takes place.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Construction contracts

The Group recognised profits and losses from construction contracts, which were derived from the latest available budgets of the construction contracts based on the overall performance of each construction contract and 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 joint ventures were principally derived from the construction contracts carried out by the joint ventures. These figures were derived from the latest available budgets of the construction contracts which were prepared by the management of the respective joint ventures 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 (i.e. the executive directors) 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 2015

	Hong Kong HK\$'000	The PRC HK\$'000	Middle East HK\$'000	Total HK\$'000
Results				
Segment revenue	4,549,358	22,271	–	4,571,629
Segment profit (loss)	97,797	9,585	(2,193)	105,189
Unallocated expenses				(2,902)
Investments income				2,247
Increase in fair value of held-for-trading investments				807
Share of results of associates				360
Finance costs				(8,635)
Profit before tax				97,066

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2014

	Hong Kong HK\$'000	The PRC HK\$'000	Middle East HK\$'000	Total HK\$'000
Results				
Segment revenue	3,214,927	22,414	–	3,237,341
Segment profit (loss)	55,416	8,973	(2,324)	62,065
Unallocated expenses				(2,793)
Investments income				2,220
Decrease in fair value of held-for-trading investments				(4,031)
Share of results of associates				619
Finance costs				(3,559)
Profit before tax				54,521

There are no inter-segment sales for both years.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2015

	Hong Kong HK\$'000	The PRC HK\$'000	Middle East HK\$'000	Total HK\$'000
<i>Assets</i>				
Segment assets	1,581,236	123,169	47,973	1,752,378
Unallocated assets				862,187
Total consolidated assets				2,614,565
<i>Liabilities</i>				
Segment liabilities	1,952,063	491	1,708	1,954,262
Obligations in excess of interests in associates				16,173
Unallocated liabilities				221,786
Total consolidated liabilities				2,192,221

For the year ended 31 December 2015

	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)	102,492	16	–	102,508
Amortisation of intangible assets	–	1,431	–	1,431
Depreciation of property, plant and equipment	22,173	88	14	22,275
Gain on disposal of property, plant and equipment	321	–	–	321
Interest income on bank deposits and other financial asset	299	1,350	–	1,649

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2014

	Hong Kong HK\$'000	The PRC HK\$'000	Middle East HK\$'000	Total HK\$'000
<i>Assets</i>				
Segment assets	1,461,544	108,146	48,811	1,618,501
Unallocated assets				468,356
Total consolidated assets				2,086,857
<i>Liabilities</i>				
Segment liabilities	1,611,557	3,534	2,505	1,617,596
Obligations in excess of interests in associates				16,533
Unallocated liabilities				105,829
Total consolidated liabilities				1,739,958

For the year ended 31 December 2014

	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)	72,341	497	–	72,838
Amortisation of intangible assets	–	1,519	–	1,519
Depreciation of property, plant and equipment	15,551	66	42	15,659
Impairment loss recognised on goodwill	2,177	–	–	2,177
Gain on disposal of property, plant and equipment	239	41	–	280
Interest income on bank deposits and other financial asset	41	1,402	–	1,443
Insurance claim on loss of plant and machinery	301	–	–	301

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. SEGMENTAL INFORMATION (Continued)

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

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

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

	Non-current assets	
	2015	2014
	HK\$'000	HK\$'000
Hong Kong	236,224	172,403
The PRC	32,706	36,314
Middle East	1,019	1,019
	269,949	209,736

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

Revenue from customers of the corresponding years contributing over 10% of the Group's revenue are as follows:

	2015	2014
	HK\$'000	HK\$'000
Customer A ¹	2,620,645	1,681,236
Customer B ¹	1,316,847	969,298

¹ Revenue from customers located in Hong Kong.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

7. INVESTMENTS AND OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Investments and other income include:		
Dividends from held-for-trading investments	2,247	1,933
Gain on disposal of property, plant and equipment	321	280
Interest on bank deposits	426	96
Interest on other financial asset	1,223	1,347
Government subsidy	3,045	–
Gains on acquisitions of subsidiaries	233	–
Interest on held-for-trading investments	–	287
Insurance claim on loss of plant and machinery	–	301

8. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on:		
Bank borrowings	2,689	3,089
Bonds	5,440	–
Imputed interest expense on non-current interest-free amount due to an associate	506	470
	8,635	3,559

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

9. PROFIT BEFORE TAX

	2015 HK\$'000	2014 HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	1,813	1,420
Underprovision in prior years	308	437
	2,121	1,857
Depreciation of property, plant and equipment	39,617	37,938
Less: amount attributable to construction contracts	(17,342)	(22,279)
	22,275	15,659
Hire charges for plant and machinery	153,361	133,577
Less: amount attributable to construction contracts	(153,361)	(133,577)
	-	-
Amortisation of intangible assets	1,431	1,519
Net foreign exchange losses	756	290
Impairment loss recognised on goodwill	-	2,177
Operating lease rentals in respect of land and buildings	20,576	16,537
Less: amount attributable to construction contracts	(11,679)	(9,834)
	8,897	6,703
Staff costs:		
Directors' remuneration (note 10)	8,193	9,435
Other staff costs	672,239	530,788
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$203,000 (2014: HK\$562,000)	22,694	17,883
	703,126	558,106
Less: amount attributable to construction contracts	(579,390)	(442,108)
	123,736	115,998

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration paid or payable to each of the nine (2014: eight) directors were as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
Year ended 31 December 2015				
Executive Directors				
Zen Wei Peu, Derek	–	4,509	18	4,527
Chang Kam Chuen, Desmond	–	2,338	208	2,546
Non-Executive Directors				
David Howard Gem	168	–	–	168
Cheng Chi Pang, Leslie	168	–	–	168
Chan Chi Hung, Anthony	168	–	–	168
Independent Non-executive Directors				
Chow Ming Kuen, Joseph	168	–	–	168
Ng Chi Ming, James	168	–	–	168
Ho Tai Wai, David	168	–	–	168
Ling Lee Ching Man, Eleanor	112	–	–	112
	1,120	6,847	226	8,193

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
Year ended 31 December 2014				
Executive Directors				
Zen Wei Peu, Derek	–	6,140	17	6,157
Chang Kam Chuen, Desmond	–	2,085	185	2,270
Non-Executive Directors				
David Howard Gem	168	–	–	168
Cheng Chi Pang, Leslie	168	–	–	168
Chan Chi Hung, Anthony	168	–	–	168
Independent Non-executive Directors				
Chow Ming Kuen, Joseph	168	–	–	168
Ng Chi Ming, James	168	–	–	168
Ho Tai Wai, David	168	–	–	168
	1,008	8,225	202	9,435

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

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

11. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included one (2014: one) director, details of whose emoluments are set out in note 10 above. The emoluments of the remaining four (2014: four) highest paid individuals were as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	10,472	9,751
Retirement benefits scheme contributions	749	696
	11,221	10,447

Their emoluments were within the following bands:

	Number of employees	
	2015	2014
HK\$2,000,001 to HK\$2,500,000	–	2
HK\$2,500,001 to HK\$3,000,000	3	2
HK\$3,000,001 to HK\$3,500,000	1	–

12. INCOME TAX EXPENSE

	2015 HK\$'000	2014 HK\$'000
Current tax:		
Other jurisdictions	1,958	1,690
Underprovision in prior years:		
Hong Kong	883	204
Other jurisdictions	43	13
	926	217
	2,884	1,907

Hong Kong Profits Tax is provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

12. INCOME TAX EXPENSE (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Profit before tax	97,066	54,521
Taxation at the applicable rate of 16.5% (2014: 16.5%)	16,016	8,996
Tax effect of share of results of associates	(59)	(102)
Tax effect of expenses that are not deductible in determining taxable profit	5,777	5,524
Tax effect of income that is not taxable in determining taxable profit	(9,643)	(3,646)
Underprovision in prior years	926	217
Tax effect of unrecognised tax losses	35,987	23,585
Tax effect of utilisation of tax losses previously not recognised	(46,830)	(29,786)
Tax effect on concessionary rate	753	837
Others	(43)	(3,718)
Income tax expense for the year	2,884	1,907

13. DIVIDEND

A final dividend for the year ended 31 December 2015 of HK1.5 cents (2014: HK1 cent) per ordinary share, totaling approximately HK\$18,628,000 based on 1,241,877,992 shares (2014: approximately HK\$12,418,000 based on 1,241,877,992 shares) has been proposed by the board of directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. This final dividend has not been included as a liability in the consolidated financial statements.

14. EARNINGS PER SHARE

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

	2015 HK\$'000	2014 HK\$'000
Profit for the year attributable to owners of the Company and earnings for the purpose of basic earnings per ordinary share	94,307	55,203
	Number of shares	
	2015	2014
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	1,241,878	1,241,878

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

Notes to the Consolidated Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Vessels HK\$'000	Total HK\$'000
COST						
At 1 January 2014	5,049	90,398	35,840	8,240	72,924	212,451
Exchange realignment	–	–	(21)	(10)	–	(31)
Additions	27	68,034	2,684	1,761	332	72,838
Disposals	(33)	(976)	(8)	(266)	–	(1,283)
At 31 December 2014	5,043	157,456	38,495	9,725	73,256	283,975
Exchange realignment	–	–	(47)	(41)	–	(88)
Additions	1,143	89,658	1,815	2,586	7,306	102,508
Acquisition of a subsidiary	–	1,401	432	112	–	1,945
Disposals	–	(2,111)	(289)	(864)	–	(3,264)
At 31 December 2015	6,186	246,404	40,406	11,518	80,562	385,076
DEPRECIATION AND IMPAIRMENT						
At 1 January 2014	3,837	50,686	28,232	6,940	46,445	136,140
Exchange realignment	–	–	(18)	(10)	–	(28)
Provided for the year	1,223	27,275	3,514	595	5,331	37,938
Eliminated on disposals	(33)	(351)	(8)	(233)	–	(625)
At 31 December 2014	5,027	77,610	31,720	7,292	51,776	173,425
Exchange realignment	–	–	(43)	(14)	–	(57)
Provided for the year	201	26,793	3,770	800	8,053	39,617
Eliminated on disposals	–	(1,216)	(287)	(658)	–	(2,161)
At 31 December 2015	5,228	103,187	35,160	7,420	59,829	210,824
CARRYING VALUES						
At 31 December 2015	958	143,217	5,246	4,098	20,733	174,252
At 31 December 2014	16	79,846	6,775	2,433	21,480	110,550

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold improvements	33 $\frac{1}{3}$ % 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%

16. INTANGIBLE ASSETS

	Construction licenses HK\$'000 (Note a)	Service concession arrangement HK\$'000 (Note b)	Total HK\$'000
COST			
At 1 January 2014	32,858	42,839	75,697
Exchange realignment	–	(1,074)	(1,074)
At 31 December 2014	32,858	41,765	74,623
Exchange realignment	–	(2,403)	(2,403)
At 31 December 2015	32,858	39,362	72,220
AMORTISATION			
At 1 January 2014	–	4,587	4,587
Exchange realignment	–	(115)	(115)
Charge for the year	–	1,519	1,519
At 31 December 2014	–	5,991	5,991
Exchange realignment	–	(345)	(345)
Charge for the year	–	1,431	1,431
At 31 December 2015	–	7,077	7,077
CARRYING VALUES			
At 31 December 2015	32,858	32,285	65,143
At 31 December 2014	32,858	35,774	68,632

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16. INTANGIBLE ASSETS (Continued)

Notes:

- (a) The amount represents the fair value of the construction licenses (with indefinite useful lives) held by a wholly-owned subsidiary, Build King Construction Limited (Formerly known as 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 the 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 18.

- (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 21 for details of sewage treatment plant phase I) and is granted an exclusive operating right 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 operating period on a straight line basis when the sewage treatment commences its operation of 30 years.

The first stage of the construction of the sewage treatment plant phase II comprising construction works and equipment acquisition and installation had been completed and put into operation in 2010.

The sewage treatment plant phase II has been further developed in second stage pursuant to the service concession arrangement contracts which includes purchase and installation of sewage treatment equipment and various construction works has been put into operation in 2013.

17. GOODWILL

The amount represents goodwill arising on the reverse acquisition of the Company in 2004 and the acquisition of a subsidiary in 2014 (note 45). Particulars regarding impairment testing on goodwill are disclosed in note 18.

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

For the purpose of impairment testing of goodwill arising on the reverse acquisition of the Company in 2004, goodwill has been allocated to the group of underlying 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 goodwill arising on the acquisition of a subsidiary in 2014, goodwill has been allocated to the underlying CGU and represents the control premium and potential for revenue growth and future market development.

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

The recoverable amounts of the above groups of CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Group's management covering a period of 5 years, and a discount rate of 10% (2014: 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.

During the year ended 31 December 2014, the management of the Group has written off the goodwill arising from the acquisition of a subsidiary amounted to HK\$2,177,000.

Except as described above, at the end of the reporting period, the management of the Group determined that there is no impairment of any of its CGUs containing goodwill and intangible assets.

19. INTEREST IN A JOINT VENTURE

	2015 HK\$'000	2014 HK\$'000
Cost of investment in unlisted joint venture	-	-
Share of post-acquisition profits and other comprehensive income, net of dividends received	-	-
	-	-

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19. INTEREST IN A JOINT VENTURE (Continued)

Details of the Group's joint venture at 31 December, 2015 and 2014 are as follows:

Name of jointly venture	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group		Principal activities
			2015 %	2014 %	
Hip Hing-Leader JV Limited	Incorporated	Hong Kong	33.3	33.3	Civil engineering

The summarised financial information in respect of the Group's joint venture, Hip Hing-Leader JV Limited is set out below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2015 HK\$'000	2014 HK\$'000
Current liabilities	(3,429)	(3,429)

Reconciliation of the above summarised financial information to the carrying amount of the interest in a joint venture recognised in the consolidated financial statements:

	2015 HK\$'000	2014 HK\$'000
Net liabilities of the joint venture	(3,429)	(3,429)
Proportion of the Group's ownership interest in a joint venture	33.3%	33.3%
The unrecognised share of loss of a joint venture	(1,142)	(1,142)
Carrying amount of the Group's interest in a joint venture	–	–

20. AVAILABLE-FOR-SALE INVESTMENT

	2015 HK\$'000	2014 HK\$'000
Unlisted equity securities, at cost	800	800
Less: Impairment loss recognised	(800)	(800)
	–	–

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

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21. OTHER FINANCIAL ASSET

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

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

Under the service concession arrangement, the local government of Qian Qiao Zhen guarantees a minimum volume of sewage to be treated by the plant with a fixed predetermined rate per tons of sewage. The agreed price will be reviewed annually. Therefore, the service concession arrangement is classified as financial assets. The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised as other financial asset carrying effective interest rate of 2.61% (2014: 2.61%) per annum and repayable over the service concession period of 30 years.

22. OTHER RECEIVABLE

As at 31 December 2015, 惠記環保工程(上海)有限公司, a wholly owned subsidiary of the Group, advanced a loan to an independent third party. The loan is secured by 51% equity interest in a PRC company, interest bearing at 4.5% fixed rate per annum and will be fully repaid before 30 November 2017, therefore the amount is classified as non-current.

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

	2015 HK\$'000	2014 HK\$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits less recognised losses	17,914,644	12,682,746
Less: Progress billings	(18,094,131)	(12,869,856)
	(179,487)	(187,110)
Represented by:		
Due from customers included in current assets	485,303	461,531
Due to customers included in current liabilities	(664,790)	(648,641)
	(179,487)	(187,110)

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24. DEBTORS, DEPOSITS AND PREPAYMENTS

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

	2015	2014
	HK\$'000	HK\$'000
Trade receivables analysed by age:		
0 to 60 days	515,246	486,176
61 to 90 days	1,336	730
Over 90 days	10,016	4,912
	526,598	491,818
Bills receivables analysed by age:		
0 to 60 days	5,175	5,347
61 to 90 days	878	62
Over 90 days	5,518	5,092
	11,571	10,501
Retention receivables	290,415	240,235
Other debtors, deposits and prepayments	100,083	37,343
	928,667	779,897
Retention receivables:		
Due within one year	55,504	66,745
Due more than one year	234,911	173,490
	290,415	240,235

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

Included in the Group's trade receivables are debtors with a carrying amount of HK\$11,352,000 (2014: HK\$5,642,000) 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.

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24. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Ageing of trade receivables which are past due but not impaired

	2015 HK\$'000	2014 HK\$'000
Overdue:		
1 – 30 days	1,336	730
Over 30 days	10,016	4,912
	11,352	5,642

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

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

25. AMOUNT(S) DUE FROM FELLOW SUBSIDIARIES/ASSOCIATES/A JOINT VENTURE/ OTHER PARTNERS OF JOINT OPERATIONS

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

26. HELD-FOR-TRADING INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
Held-for-trading investments stated at fair value:		
– Equity securities listed in Hong Kong	26,611	25,804

At 31 December 2014, certain equity securities with market value of HK\$19,650,000 were pledged to a bank to secure general banking facilities granted to the Group.

27. PLEDGED BANK DEPOSITS/BANK BALANCES

Bank deposits of the Group amounting to HK\$80,000 (2014: HK\$60,000) are pledged to banks for securing the banking facilities granted to the Group. The pledged bank deposits carry fixed interest rate at 0.01% (2014: 0.01%) per annum.

Bank balances carry average market interest rate ranging from 0.01% to 0.25% (2014: 0.01% to 0.25%) per annum.

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28. CREDITORS AND ACCRUED CHARGES

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

	2015 HK\$'000	2014 HK\$'000
Trade creditors analysed by age:		
0 to 60 days	162,961	186,594
61 to 90 days	9,928	25,440
Over 90 days	39,400	36,954
	212,289	248,988
Retention payables	244,688	194,730
Accrued project costs	760,105	323,236
Other creditors and accrued charges	22,467	34,172
	1,239,549	801,126
Retention payables:		
Repayable within one year	79,683	52,412
Repayable more than one year	165,005	142,318
	244,688	194,730

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

29. AMOUNT(S) DUE TO AN INTERMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES/A JOINT VENTURE/OTHER PARTNERS OF JOINT OPERATIONS/NON-CONTROLLING INTERESTS

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

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30. AMOUNT DUE TO AN ASSOCIATE

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

The non-current amount due to an associate is unsecured, interest-free and has an agreed repayment terms which is not repayable 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% (2014: 5.4%) per annum.

31. BANK LOANS

	2015 HK\$'000	2014 HK\$'000
On demand or within one year	56,122	87,287
In the second year	25,856	3,778
In the third to fifth year inclusive	14,562	4,693
	96,540	95,758
Less: Amount due within one year shown under current liabilities	(96,540)	(95,758)
Amount due after one year	–	–
Secured	43,000	18,000
Unsecured	53,540	77,758
	96,540	95,758

At the end of the reporting period, all bank loans are variable rate borrowings which carry interest rate ranging from 2.6% to 3.24% (2014: 2.41% to 3.19%) per annum. All bank loans carry interest rate which is repriced every month.

As at 31 December 2015, bank loans that are repayable more than one year after the end of the reporting period but contains a repayment on demand clause with the aggregate carrying amount of HK\$40,418,000 (2014: HK\$8,471,000) have been reclassified as current liabilities.

As at the end of the reporting period, the Group has undrawn borrowing facilities of HK\$235,393,000 (2014: HK\$113,000,000).

As at 31 December 2014, certain bank loans were secured by personal guarantees of a director of the Company.

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32. ORDINARY SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each At 1 January 2014, 31 December 2014 and 31 December 2015	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares of HK\$0.1 each At 1 January 2014, 31 December 2014 and 31 December 2015	1,241,877,992	124,188

33. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Convertible preference shares of HK\$0.01 each At 1 January 2014, 31 December 2014 and 31 December 2015	3,000,000,000	30,000
Issued and fully paid of HK\$0.01 each: At 1 January 2014, 31 December 2014 and 31 December 2015	-	-

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.

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34. 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 2015.

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:

	2015 HK\$'000	2014 HK\$'000
Tax losses:		
Carried forward indefinitely	91,210	156,925

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

35. OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES

	2015 HK\$'000	2014 HK\$'000
Cost of investment in unlisted associates	4	4
Share of post-acquisition losses (note)	(16,177)	(16,537)
	(16,173)	(16,533)

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 2015 and 2014 are as follows:

Name of associate	Form of entity	Place of incorporation/ operation	Proportion of nominal value of issued ordinary capital held indirectly by the Company %	Proportion of voting rights by the Group %	Principal activities
Hong Kong Landfill Restoration Group Limited ("Hong Kong Landfill")	Incorporated	Hong Kong	34.5	50	Civil engineering

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

Summarised financial information of material associate

Summarised financial information in respect of the Group's major associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

All associates are accounted for using the equity method in these consolidated financial statements.

Hong Kong Landfill

	2015 HK\$'000	2014 HK\$'000
Current assets	21,870	23,710
Non-current assets	38,580	38,384
Current liabilities	(78,918)	(81,282)
	2015 HK\$'000	2014 HK\$'000
Revenue	19,012	14,899
Profit for the year	720	1,238
Total comprehensive income for the year	720	1,238

Reconciliation of the above summarised financial information to the carrying amount of the obligations in excess of interests in the associate recognised in the consolidated financial statements:

	2015 HK\$'000	2014 HK\$'000
Net liabilities of Hong Kong Landfill	(18,468)	(19,188)
Proportion of the Group's ownership interests in Hong Kong Landfill	50%	50%
Carrying amount of the Group's obligations in excess of interests in Hong Kong Landfill	(9,234)	(9,594)

The financial information of the other associate is immaterial.

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36. BONDS

On 5 January 2015 and 28 October 2015, Build King Construction Limited, a wholly owned subsidiary of the Company as the issuer and the Company as guarantor have entered into a placing agreement with a placing agent, an independent third party for the purposes of arranging placees for the issue of bonds in denomination of HK\$1,000,000 each up to an aggregate principal amount of HK\$100,000,000 and HK\$50,000,000 respectively. The bonds will be matured at the date immediately following five years after the first issue of the bonds and carry coupon interest of 7% per annum, accrued daily on a 365 days basis that is payable semi-annually in arrears on every 1 January and 1 July of each calendar year, up to but excluding the maturity date of the bonds. During the year ended 31 December 2015, bonds with the total amount of HK\$113,680,000, net of issue expenses, are issued. Such expenses will be amortised over the life of the bonds by charging the expenses to the profit or loss using effective interest rate of 7.65% per annum and increasing the net carrying amount of the bonds with the corresponding amount.

37. JOINT OPERATIONS

At 31 December 2015 and 2014, the Group had interests in the following principal joint operations:

Name of joint operation	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group		Principal activities
			2015 %	2014 %	
ACC-Leader Joint Venture	Unincorporated	Middle East	50	50	Civil engineering
Gammon-Kaden SCL 1111 Joint Venture	Unincorporated	Hong Kong	30	30	Civil engineering
China State-Leader Joint Venture	Unincorporated	Hong Kong	49	49	Civil engineering
Chun Wo-Leader Joint Venture	Unincorporated	Hong Kong	51	51	Civil engineering
CRBC-Kaden Joint Venture	Unincorporated	Hong Kong	60	49	Civil engineering
CRBC-CEC-Kaden Joint Venture	Unincorporated	Hong Kong	32.5	–	Civil engineering
McDow-Kaden Joint Venture	Unincorporated	Hong Kong	50	50	Civil engineering
Kaden-Chun Wo Joint Venture	Unincorporated	Hong Kong	51	51	Civil engineering
Kaden-VSL Joint Venture	Unincorporated	Hong Kong	55	55	Civil engineering
Kier-Kaden-OSSA Joint Venture	Unincorporated	Hong Kong	35	35	Civil engineering
Leader Joint Venture (Formerly known as Sembawang-Leader Joint Venture) ("Leader JV")	Unincorporated	Hong Kong	–	45	Civil engineering
Kier-Laing O'Rourke – Kaden Joint Venture	Unincorporated	Hong Kong	15	15	Civil engineering

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

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38. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank loans and bonds disclosed in notes 31 and 36 and equity attributable to equity holders of the Company, comprising issued capital and reserves.

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

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

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
<i>Financial assets</i>		
Held-for-trading investments	26,611	25,804
Loans and receivables (including cash and cash equivalents)	1,806,094	1,371,170
	1,832,705	1,396,974
<i>Financial liabilities</i>		
Amortised cost	1,502,500	1,067,336

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39. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include other financial asset, other receivable, debtors, amounts due from associates, a joint venture and other partners of joint operations, held-for-trading investments, pledged bank deposit, bank balances, creditors and accrued charges, amounts due to an intermediate holding company, fellow subsidiaries, a joint venture, an associate, other partners of joint operations and non-controlling interests and bank loans and bonds. The risks associated with these financial instruments include market 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) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank loans (see note 31 for details of these borrowings). Although the Group is also exposed to fair value interest rate risk in relation to fixed rate bonds, the Group's policy to keep its borrowings at floating rate of interests would minimise the fair value interest rate risk.

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

Sensitivity analysis

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

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would decrease/increase by HK\$965,000 (2014: HK\$958,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank loans.

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39. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Other price risk

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

Other price sensitivity analysis

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

If the prices of the respective equity and debt instruments had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2015 would increase/decrease by HK\$1,331,000 (2014: HK\$1,290,000) as a result of the changes in fair value of held-for-trading investments.

Credit risk

As at 31 December 2015, 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 arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. The Group is exposed to concentration of credit risk as the major customers of the Group are the HKSAR Government and certain reputable organisations. The directors of the Company consider that the HKSAR Government and these reputable organisations are financially sound and accordingly no provision is required.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at 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 Group's credit risk is also attributable to its other receivable. Since the loan receivable is secured by 51% equity interest in a PRC company, with the share of net asset value higher than its carrying amount, the directors of the Company consider that the credit risk is minimal.

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

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39. FINANCIAL INSTRUMENTS (Continued)

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

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 the Group maintains sufficient reserve of cash and adequate committed line of funding from major financial institutions to meet its liquidity requirement in the short and long term. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the 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 31.12.2015 HK\$'000
2015								
Non-interest bearing	-	1,098,087	2,024	22,062	91,660	85,504	1,299,337	1,291,986
Fixed interest rate instruments	7.65	-	4,060	4,060	16,240	127,113	151,473	113,974
Variable interest rate instruments	2.94	96,540	-	-	-	-	96,540	96,540
		1,194,627	6,084	26,122	107,900	212,617	1,547,350	1,502,500
	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 31.12.2014 HK\$'000
2014								
Non-interest bearing	-	818,225	3,074	2,555	82,173	73,410	979,437	971,578
Variable interest rate instruments	3.36	95,758	-	-	-	-	95,758	95,758
		913,983	3,074	2,555	82,173	73,410	1,075,195	1,067,336

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

39. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

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 from those estimates of interest rates determined at the end of the reporting period.

Bank borrowings with a repayment on demand clause are included in the “repayable on demand or 3 months or less” time band in the above maturity analysis. As at 31 December 2015, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$40,418,000 (2014: HK\$8,471,000). 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 borrowings of HK\$25,856,000, HK\$9,272,000 and HK\$5,290,000 will be repaid in 2017, 2018 and 2019, respectively after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$26,664,000 (2014: HK\$3,962,000) HK\$9,551,000 (2014: HK\$3,962,000) and HK\$5,354,000 (2014: HK\$814,000) in 2017, 2018 and 2019, respectively.

(c) Fair value

The investments held for trading of the Group are measured at fair value at recurring basis, by reference to market bid price in active market and classified under Level 1.

The fair values of the financial assets and financial liabilities that are not measured at fair value on a recurring basis have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. 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.

40. CONTINGENT LIABILITIES

	2015 HK\$'000	2014 HK\$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	297,056	234,278

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

41. CAPITAL COMMITMENTS

	2015 HK\$'000	2014 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	22,744	5,988
Capital expenditure in respect of acquisition of 49% equity interest in a PRC company authorised but not contracted for	40,822	–

42. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2015, 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:

	2015 HK\$'000	2014 HK\$'000
Within one year	17,714	18,978
In the second to fifth years inclusive	15,022	16,722
	32,736	35,700

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.

43. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to profit or loss of HK\$22,920,000 (2014: HK\$18,085,000) represents contributions paid or payable to the retirement benefits schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

44. RELATED PARTY TRANSACTIONS

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

	2015 HK\$'000	2014 HK\$'000
Fellow subsidiary		
Marine plant hire income	11,027	12,079
Purchase of construction materials	36,341	16,666
Construction contract revenue	20,740	–

Details of the balances with associates, joint ventures, other partners of joint operations, an intermediate holding company, fellow subsidiaries and non-controlling interests are disclosed in the consolidated statement of financial position and respective notes.

All of the above related party transactions constitute connected transaction or continuing connected transaction which is subject to shareholders' approval, 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

Compensation of key management personnel

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

	2015 HK\$'000	2014 HK\$'000
Short-term benefits	29,431	24,934
Post-employment benefits	1,591	1,430
	31,022	26,364

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 2014, a director provided personal guarantees amounting to HK\$12,500,000 to a bank to secure the general banking facilities granted to the Group.

At 31 December 2015 and 2014, Wai Kee has also given guarantees to indemnify all liabilities for certain construction contracts undertaken by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

45. ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2015

On 16 March 2015, the Group, further acquired 49% attributable interest in SEGACN-Yat Hing Joint Venture (“SEGACN-Yat Hing”) from an independent third party at a cash consideration of HK\$1. Prior to the acquisition, the Group held 51% interest in SEGACN-Yat Hing which is an unincorporated entity and has been accounted for as a joint operation of the Group. Immediately after the acquisition, SEGACN-Yat Hing becomes a 100% owned subsidiary of the Group. SEGACN-Yat Hing is engaged in fitting out, improvement and alteration works in the PRC.

On 30 November 2015, the Group entered into an agreement with Sembawang Engineers and Constructors Pte. Ltd. (“SEC”), the other partner of Leader Joint Venture (“Leader JV”, formerly known as Sembawang-Leader Joint Venture) pursuant to which SEC withdrawn from the joint operation due to financial difficulties. After the SEC’s withdrawal, the Group will become entitled to 100% of the results of Leader JV and have absolute control over the board of Leader JV. As a result, Leader JV becomes an indirect wholly-owned subsidiary of the Company. Prior to the acquisition, the Group held 45% interest in Leader JV which is an unincorporated entity and has been accounted for as joint operation of the Group. Leader JV is engaged in civil engineering in Hong Kong.

The acquisitions are accounted for using the purchase method. Acquisition-related costs have been excluded from the cost of the above acquisitions. The costs are insignificant and recognised as an expense in the year within the administrative expense in the consolidated statement of profit or loss.

Assets and liabilities of the acquired companies at the acquisition date are as follows:

	SEGACN- Yat Hing	Leader JV	Total
	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	–	3,536	3,536
Amounts due from customers for contract work	406	55,211	55,617
Debtors, deposits and prepayments	8,193	101,976	110,169
Bank balances and cash	–	32,797	32,797
Amounts due to customers for contract work	–	(106,527)	(106,527)
Creditors and accrued charges	(2,095)	(86,948)	(89,043)
Amount due to a partner of a joint operation	(6,080)	–	(6,080)
Net assets	424	45	469

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

45. ACQUISITIONS OF SUBSIDIARIES (Continued)

Gain on bargain purchase arising from the acquisitions:

	SEGACN- Yat Hing	Leader JV	Total
	HK\$'000	HK\$'000	HK\$'000
Cash consideration paid	–	–	–
Fair value of 45% interest held by the Group	–	20	20
Fair value of 51% interest held by the Group	216	–	216
Less: net assets at the acquisition date	(424)	(45)	(469)
Gain on bargain purchase arising from the acquisitions	(208)	(25)	(233)

The fair values of SEGACN-Yat Hing's identifiable assets and liabilities has been assessed by the management of the Group and it considers that the fair value of debtors, deposits and prepayments and creditors and accrued charges, at the date of acquisition amounted to HK\$8,193,000 and HK\$2,095,000 respectively, approximate to gross contractual amounts of those corresponding balances acquired by the Group. At the date of acquisition, the management of the Group considers that the contractual cash flows not expected to be collected is insignificant and the gain on bargain purchase arising from the acquisition of HK\$208,000 is credited to the other income.

The fair value of Leader JV's identifiable assets and liabilities has been assessed by the management of the Group and it considers that the fair value of debtors, deposits and prepayments and creditors and accrued charges, at the date of acquisition amounted to HK\$101,976,000 and HK\$86,948,000 respectively, approximate to gross contractual amounts of those corresponding balances acquired by the Group. At the date of acquisition, the management of the Group considers that the contractual cash flows not expected to be collected is insignificant and the gain on bargain purchase arising from the acquisition of HK\$25,000 is credited to the other income.

Net cash inflow on acquisitions:

	SEGACN- Yat Hing	Leader JV	Total
	HK\$'000	HK\$'000	HK\$'000
Cash consideration paid	–	–	–
Less: cash and cash equivalent balances acquired	–	(18,038)	(18,038)
	–	(18,038)	(18,038)

Included in the profit for the year is loss HK\$302,000 attributable to the additional business generated by SEGACN-Yat Hing, and profit HK\$2,000 attributable to the additional business generated by Leader JV. Revenue for the year contributed by SEGACN-Yat Hing and Leader JV are HK\$4,991,000 and HK\$153,299,000 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

45. ACQUISITIONS OF SUBSIDIARIES (Continued)

Had the acquisition been completed on 1 January 2015, total group revenue for the year would have been HK\$4,726,471,000, and profit for the year would have been HK\$70,501,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

For the year ended 31 December 2014

On 28 February 2014, the Group further acquired 60% attributable interest in Honwin-Leader Marine Joint Venture ("Honwin-Leader") from an independent third party at a cash consideration of HK\$8,000,000. Prior to the acquisition, Build King held 40% interest in Honwin-Leader which is an unincorporated entity and has been accounted for as joint operation of the Group. Immediately after the acquisition, Honwin-Leader becomes a 100% owned subsidiary of the Group. Honwin-Leader is engaged in marine engineering and provision of transportation services in Hong Kong. The acquisition is accounted for using the purchase method.

Acquisition-related costs have been excluded from the cost of the above acquisition. The costs were insignificant and recognised as an expense in 2014, within the administrative expenses in the condensed consolidated statement of profit or loss.

Assets acquired and liabilities recognised at the acquisition date are as follows:

	HK\$'000
Debtors, deposits and prepayments	2,665
Amount due from a partner of joint operation	8,562
Amount due to a partner of joint operation	(1,522)
Net assets	<u>9,705</u>
Goodwill arising on the acquisition:	
Cash consideration paid	8,000
Fair value of the 40% interest held by Build King	3,882
Less: net assets at the acquisition date	(9,705)
	<u>2,177</u>

The fair value of Honwin-Leader's identifiable assets and liabilities has been assessed by the management of the Group and it considers that the fair value of debtors, deposits and prepayments, at the date of acquisition amounted to HK\$2,665,000 which approximate to gross contractual amounts of those corresponding balances acquired by the Group. At the date of acquisition, the management of the Group considers that the contractual cash flows not expected to be collected is insignificant.

Goodwill arising in the acquisition includes the control premium and the potential for revenue growth and future market development.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

45. ACQUISITIONS OF SUBSIDIARIES (Continued)

At the end of the reporting period, the management of the Group writes off of the goodwill and recognises a loss of HK\$2,177,000 in relation to goodwill arising from the acquisition of Honwin-Leader which is included in administrative expenses.

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 HK\$'000	2014 HK\$'000
Non-current asset		
Unlisted investments in subsidiaries	60,000	60,000
Current assets		
Amounts due from subsidiaries	109,177	94,064
Bank balances and cash	6,183	5,516
Other current assets	9	6
	115,369	99,586
Current liabilities		
Amount due to an intermediate holding company	2,514	2,514
Amounts due to subsidiaries	30,257	14,960
	32,771	17,474
Net current assets	82,598	82,112
Total assets less current liabilities	142,598	142,112
Capital and reserves		
Ordinary share capital	124,188	124,188
Reserves	18,410	17,924
Total equity	142,598	142,112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

Movement in reserves

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note)	Other reserve HK\$'000 (Note)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014	14,186	419,212	115	(472,568)	(39,055)
Profit and total comprehensive income for the year	–	–	–	63,188	63,188
Dividend paid	–	–	–	(6,209)	(6,209)
At 31 December 2014	14,186	419,212	115	(415,589)	17,924
Profit and total comprehensive income for the year	–	–	–	12,904	12,904
Dividend paid	–	–	–	(12,418)	(12,418)
At 31 December 2015	14,186	419,212	115	(415,103)	18,410

Note: The contributed surplus and other reserve represent adjustments in share capital on the reverse acquisition of the Company in 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

47. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2015 and 2014 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
				2015 %	2014 %	
Allied Wise Limited	Hong Kong	Hong Kong	HK\$2	100	100	Investment holding
Amazing Reward Group Limited	British Virgin Islands ("BVI")	Hong Kong	US\$1,000,000	100	100	Investment holding
Titan Foundation Limited	Hong Kong	Hong Kong	HK\$20,000,000	100	100	Civil engineering
Build King Construction Limited (formerly known as Kaden Construction Limited) ("BKCL")	United Kingdom	Hong Kong	GBP16,072,500	100	100	Construction and civil engineering
Build King Civil Engineering Limited (formerly known as Leader Civil Engineering Corporation Limited)	Hong Kong	Hong Kong	HK\$25,200,000	100	100	Civil engineering
			Ordinary shares HK\$24,000,000 Non-voting deferred shares	100	100	
Build King Management Limited (formerly known as Leader Construction Company Limited)	Hong Kong	Hong Kong	HK\$2	100	100	Provision of administrative and management services to group companies
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK\$200,000	100	100	Marine engineering and provision of transportation services
Leader Marine Cont. L.L.C.	Sharjah, United Arab Emirates ("U.A.E.")	U.A.E.	Dh300,000	100	100	First class contracting/specialised in marine construction

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

47. 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
				2015 %	2014 %	
Profound Success Limited	BVI	Hong Kong	US\$1	100	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US\$1	100	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	PRC	HK\$10,000,000	100	100	Civil engineering
Build King (Zens) Engineering Limited (formerly known as Wai Kee (Zens) Construction & Transportation Company Limited)	Hong Kong	Hong Kong	HK\$25,000,002 Ordinary shares	100	100	Civil engineering
			HK\$14,800,000 Non-voting deferred shares	100	100	
			HK\$5,200,000 Non-voting deferred shares (note a)	-	-	
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK\$1	100	100	Provision of secretarial and nominee services to group companies
Wuxi Qianhui Sewage Treatment Co., Ltd. (note b)	PRC	PRC	US\$5,400,000	95.6	95.6	Sewage treatment
Build King Interior & Construction Limited (formerly known as Yat Hing Decoration Works Limited)	Hong Kong	Hong Kong	HK\$1,000,000	100	100	Fitting out, improvement and alternation works for buildings
惠記環保工程（上海）有限公司 (note c)	PRC	PRC	US\$800,000	100	100	Environmental engineering

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

47. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

- (a) These deferred shares, which are not held by the Group, practically carry minimal rights to dividends and no rights to receive notice of or to attend or vote at any general meeting of the company. On a winding up, the holders of the deferred shares are entitled to a distribution out of the remaining assets of the company only after the distribution of substantial amounts as specified in the Articles of Association to holders of ordinary shares of the company.
- (b) The company is a co-operative joint venture registered in the PRC.
- (c) 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.

Except for BKCL which has issued bonds (note 36), 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				2015 HK\$'000
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	
Group revenue	1,730,857	2,142,042	2,193,098	3,237,341	4,571,629
Share of revenue of joint ventures	-	-	-	-	-
	1,730,857	2,142,042	2,193,098	3,237,341	4,571,629
Group Revenue	1,730,857	2,142,042	2,193,098	3,237,341	4,571,629
Operating profit	28,850	24,257	25,390	57,461	105,341
Share of results of joint ventures	-	-	-	-	-
Share of results of associates	697	440	643	619	360
Finance costs	(2,122)	(2,751)	(4,324)	(3,559)	(8,635)
Profit before tax	27,425	21,946	21,709	54,521	97,066
Income tax expense	(332)	(1,822)	(1,495)	(1,907)	(2,884)
Profit for the year	27,093	20,124	20,214	52,614	94,182

FINANCIAL POSITION

	At 31 December				2015 HK\$'000
	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	
Total assets	1,085,005	1,324,724	1,763,061	2,086,857	2,614,565
Total liabilities	(814,248)	(1,032,685)	(1,460,010)	(1,739,958)	(2,192,221)
Net assets	270,757	292,039	303,051	346,899	422,344

The information for the year ended 31 December 2011 and 2012 has been adjusted to reflect the change in accounting policy arising from the adoption of HKFRS 11 "Joint Arrangements" issued by the HKICPA during the year ended 31 December 2013.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Chow Ming Kuen, Joseph
Ho Tai Wai, David
Ling Lee Ching Man, Eleanor

AUDIT COMMITTEE

Ho Tai Wai, David *(Chairman)*
Chow Ming Kuen, Joseph
Ling Lee Ching Man, Eleanor

NOMINATION COMMITTEE

Ling Lee Ching Man, Eleanor *(Chairwoman)*
Chow Ming Kuen, Joseph
Ho Tai Wai, David
Zen Wei Peu, Derek

REMUNERATION COMMITTEE

Chow Ming Kuen, Joseph *(Chairman)*
Ho Tai Wai, David
Ling Lee Ching Man, Eleanor
Zen Wei Peu, Derek

COMPANY SECRETARY

Chang Kam Chuen, Desmond

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Reed Smith Richards Butler
Conyers Dill & Pearman

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
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69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Progressive Limited
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