

**PROPERTY
DEVELOPMENT**

TOLL ROAD

CONSTRUCTION

**CONSTRUCTION
MATERIALS**

QUARRYING



Wai Kee Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 610)

ANNUAL REPORT 2017

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Financial Highlights

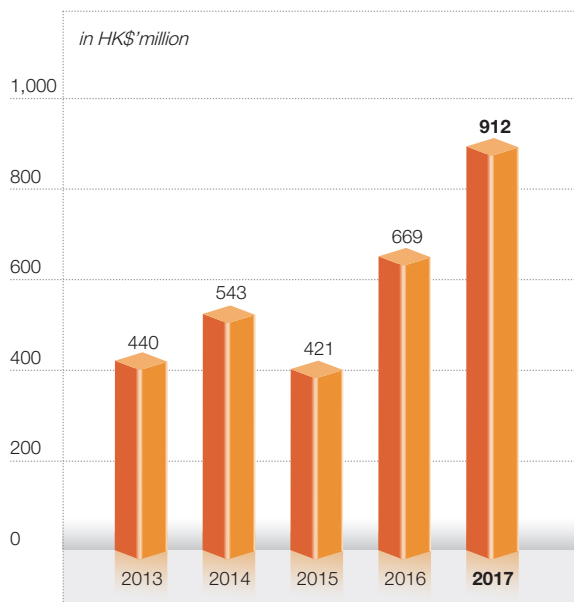
| | Year ended 31st December, | |
|--|-----------------------------|-----------------------------|
| | 2017 <i>HK\$'million</i> | 2016 <i>HK\$'million</i> |
| Revenue | 6,500 | 5,327 |
| Profit for the year | 994 | 734 |
| Profit attributable to owners of the Company | 912 | 669 |
| | <i>HK cents</i> | <i>HK cents</i> |
| Basic earnings per share | 115.05 | 84.39 |
| Dividends per share | 26.30 | 19.80 |
| Return on equity attributable to owners of the Company | 12.9% | 11.2% |

| | At 31st December, | |
|--|-----------------------------|-----------------------------|
| | 2017 <i>HK\$'million</i> | 2016 <i>HK\$'million</i> |
| Total assets | 11,728 | 9,989 |
| Total liabilities | (4,344) | (3,772) |
| Non-controlling interests | (321) | (265) |
| Equity attributable to owners of the Company | 7,063 | 5,952 |
| | <i>HK\$</i> | <i>HK\$</i> |
| Equity attributable to owners of the Company per share | 8.90 | 7.50 |

Financial Highlights

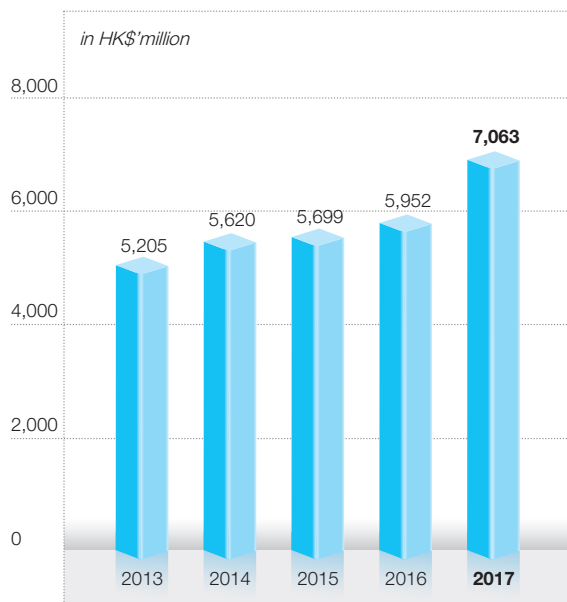
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Year ended 31st December,



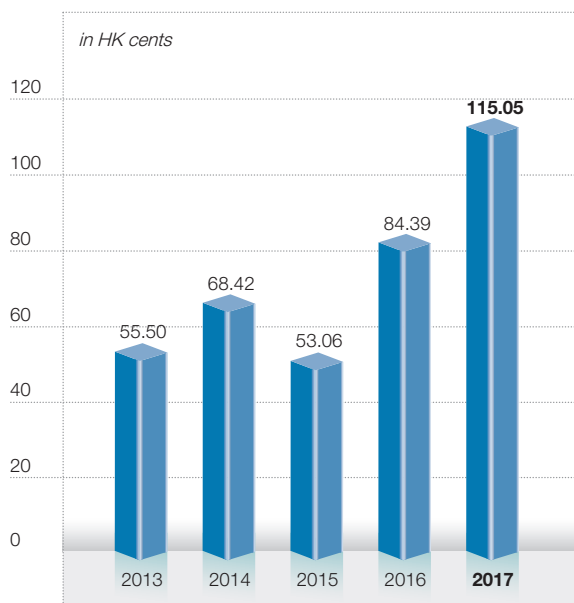
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY

At 31st December,



BASIC EARNINGS PER SHARE

Year ended 31st December,



EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY PER SHARE

At 31st December,





惠記集團有限公司
Wai Kee Holdings Limited

(Incorporated in Bermuda with limited liability)



Zen Wei Pao, William
Chairman

Dear shareholders,

The board of directors (the "Board") of the Company announces that the Group's audited revenue for the year ended 31st December, 2017 was HK\$6,500 million (2016: HK\$5,327 million), generating an audited consolidated profit attributable to owners of the Company of HK\$912 million (2016: HK\$669 million), an increase of 36% as compared with that of 2016.

At the forthcoming annual general meeting to be held on 18th May, 2018, the Board will recommend the payment of a final dividend of HK22.5 cents (2016: HK16.5 cents) per share.



PROPERTY DEVELOPMENT

上海陸子·雅院

Chairman's Statement

BUSINESS REVIEW

Property Development and Investment, Toll Road, Investment and Asset Management

For the year ended 31st December, 2017, the Group shared a profit of HK\$805 million (2016: HK\$511 million) from Road King Infrastructure Limited ("Road King"), an associate of the Group. As of the date of this report, the Group holds 41.53% interest in Road King.

During the year ended 31st December, 2017, the Group purchased 7,761,000 (2016: 6,469,000) ordinary shares in Road King at an aggregate consideration below the additional net assets value shared by the Group and hence recognised an aggregate discount of HK\$49 million (2016: HK\$72 million) on acquisition of additional interest in Road King. On the other hand, Road King issued 8,200,000 (2016: nil) ordinary shares upon exercise of share options granted to the directors and employees of Road King under the share option scheme of Road King. As the shares were issued at an exercise price lower than the net assets value per share of Road King, the Group recorded an aggregate loss of HK\$34 million (2016: nil) on deemed disposal of partial interest in Road King. As a result, the net effect of the aforesaid transactions increased the Group's interest in Road King by 0.59% (2016: 0.87%).

For the year ended 31st December, 2017, Road King recorded an audited profit attributable to its owners of HK\$1,944 million (2016: HK\$1,250 million), an increase of 56% as compared with that of 2016.

In 2017, Road King achieved remarkable results in property sales by adhering to its operating strategy of balancing turnover and profitability. The property sales (including joint venture projects) increased to RMB24,242 million, including the contracted sales of RMB22,914 million and outstanding subscribed sales of RMB1,328 million. Property sales of Road King for 2017 surged by about 30% as compared with 2016 and were mainly concentrated in Yangtze River Delta Region (representing about 65% of the total property sales).

For land reserve replenishment, Road King acquired 19 pieces of land for residential and commercial development purpose, through listing-for-sale and acquisition in 2017, with an aggregate floor area of about 2,420,000 sqm. Some of pieces of new land are joint venture projects. Road King believes that the cooperation with competent enterprises would enable Road King to invest in scalable projects, share higher returns and diversify the financial burden. At 31st December, 2017, Road King's land reserves increased to 8,330,000 sqm.

Road King will continue to research and develop market-oriented products to boost the sales so as to establish itself as a more widely recognized property developer. In addition, Road King will optimise the land reserve portfolio in Mainland China and Hong Kong in a cautious manner and seek for more development opportunities with business partners.

The total traffic volume and toll revenue of Road King's expressway projects reached 85 million vehicles and RMB2,661 million, respectively in 2017, representing an increase of 16% and 14%, respectively, comparing with that of 2016.

In 2017, Road King received cash distribution of HK\$713 million from the toll road joint ventures, including the repayment of shareholders' loans. Road King's share of operating profits of toll road joint ventures (net of income tax and withholding tax) increased from HK\$383 million in 2016 to HK\$506 million in 2017, mainly attributable to the significant growth in overall toll revenue. Both Tangjin Expressway and Baojin Expressway recorded a significant growth in traffic volume during the year. In addition, Longcheng Expressway and Machao Expressway recorded a strong growth in both traffic volume and toll revenue as they are close to the end of nurturing stage. The profit increased accordingly. The toll road business provides Road King with steady cash flows and is expected to maintain stable development.



TOLL ROAD

Chairman's Statement

BUSINESS REVIEW (Cont'd)

Property Development and Investment, Toll Road, Investment and Asset Management (Cont'd)

Road King accelerated the expansion of the investment and asset management business in 2017, including property funds, cultural attractions, tourism and indoor entertainment businesses. Road King also acquired several property projects through the above businesses for property development. At 31st December, 2017, the investment and asset management segment's land reserve was approximately 1,760,000 sqm.

In 2017, the projects of investment and asset management segment (including joint venture projects) achieved property sales of RMB2,062 million, including the contracted sales of RMB1,688 million and outstanding subscribed sales of RMB374 million. Profit of the investment and asset management segment increased to HK\$115 million.

Road King will continue to explore new property business models (including property funds and property related businesses) to identify new opportunities and drivers for profit growth under controllable risks.

Construction

For the year ended 31st December, 2017, the Group shared a profit of HK\$100 million (2016: HK\$79 million) from Build King Holdings Limited ("Build King"), the construction arm of the Group. As of the date of this report, the Group holds 55.60% interest in Build King.

For the year ended 31st December, 2017, Build King recorded revenue of HK\$5,986 million (2016: HK\$4,871 million) and an audited profit attributable to its owners of HK\$184 million (2016: HK\$151 million), an increase of 22% as compared with that of 2016. This comprises profit of HK\$161 million (2016: HK\$151 million) from construction operation and gain of HK\$23 million (2016: loss of HK\$0.2 million) from investment in listed securities.

For the year 2017, the increase of turnover was in line with the planned progress of the major projects, most of which substantial works were booked during the year. Even though provision of loss was made for two projects, the gross profit margin was maintained at 7.7%, same as that in 2016. As a result of the increase of turnover, Build King's profit after tax increased by 25% from HK\$150 million to HK\$187 million.

Amid the fierce competition in construction market, Build King managed to secure twelve new projects of total contract sum over HK\$12 billion, including four building contracts of HK\$2 billion from private developers and eight civil engineering projects of HK\$10 billion, majority of which were infrastructure projects. As of the date of this report, the total outstanding value of works on hand accumulated to HK\$18 billion.

On current civil engineering projects, the overall progress was satisfactory.

For the building division, two projects were completed on time during 2017. Together with four new projects awarded around end of 2017, the division are running nine active projects with outstanding works of HK\$3 billion.

During the year, the two investments in the PRC recorded a steady income as planned and continued to generate a total profit after tax of HK\$16 million. The operation of sewage treatment plant in Wuxi City was smoothly running at an average of 40,000 ton per day, same level as last year. At Dezhou, the heat supply operation was improving with mild increase in fee income this year.



CONSTRUCTION

Chairman's Statement

BUSINESS REVIEW (Cont'd)

Construction Materials

For the year ended 31st December, 2017, the construction materials division recorded revenue of HK\$664 million (2016: HK\$616 million) and a net profit of HK\$4 million (2016: HK\$22 million).

The decrease in the results for the construction materials division as compared with that of the previous year was because of the operating losses of concrete and asphalt plants at Lam Tei Quarry which offset part of the positive results of the division.

Due to significant drop in concrete prices since the second half of 2016 and the scale of operation of the concrete batching facilities at Lam Tei Quarry still has not yet reached its full capacity, the profit margin generated therefrom is not able to absorb the operating costs and the fixed costs of the concrete batching facilities incurred at Lam Tei Quarry.

The performance of the asphalt business is improving as the order book is picking up in the fourth quarter of 2017. Nevertheless, there is still net loss incurred by the asphalt business as the profit margin generated from the turnover was not able to absorb the operating costs and the fixed costs that the asphalt facilities incurred.

For the concrete business, the replenishment of the order book of the concrete batching facilities at Lam Tei Quarry is gradually picking up. As the concrete price remains high competition in the market, the outlook for the business remains tough.

For the asphalt business, we are focusing on increasing our order book and business promotion to obtain recognition from the customers.

The management continues to adopt prudent cost control measures and is committed to provide high quality of services to both of our concrete and asphalt customers. The additional concrete batching facilities and asphalt facilities at Lam Tei Quarry will assist the division in achieving better geographic coverage and access to more market in supplying concrete and asphalt in the long run.

Quarrying

For the year ended 31st December, 2017, the quarrying division recorded revenue of HK\$181 million (2016: HK\$185 million) and a net loss of HK\$12 million (2016: HK\$11 million).

In 2017, despite the volume of aggregates produced and sold from the crushing facilities at Lam Tei Quarry has been gradually picking up, the result of Lam Tei Quarry was still in a loss position. Because of the decline in selling prices of aggregates due to severe competition in the market, the thin profit margin generated from sales was unable to cover the substantial amount of operation costs and fixed overheads. By the same token, the decline in aggregates prices coupled with the negative impact of Renminbi appreciation on costs incurred in the PRC turned the operation at Niu Tou Island from net profit in 2016 to net loss in 2017.



CONSTRUCTION MATERIALS

Chairman's Statement

BUSINESS REVIEW (Cont'd)

Quarrying (Cont'd)

The management anticipates that the keen competition will continue in near future that the selling price of aggregates will remain in a comparatively low level in the coming year. As such, cost control measures have been exercising to minimize the cost of aggregates. The performance of quarrying division in the coming year depends very much on the demand and the trend of aggregates prices in the market. Nevertheless, Lam Tei Quarry has the geographic and synergy advantages to the Group's construction and construction materials divisions.

Property Funds

The Group holds 34.6% interest in Grand China Cayman Investors III, Limited ("Grand China Fund") which indirectly holds 39.9% interest in a US company ("US Company I"). Following the disposals of two residential rental properties in 2016, US Company I sold another two residential rental properties in 2017 and currently holds the remaining five residential rental properties in Houston. The occupancy rate of these five residential rental properties was around 95% on average. For the year ended 31st December, 2017, the Group shared profit of HK\$5.2 million and received cash distribution of US\$3.0 million from Grand China Fund.

The Group holds 30% interest in Elite International Investment Fund I LP ("Elite Fund") which indirectly holds 75% interest in another US company ("US Company II"). The disposal of the entire 7-storey complex in Los Angeles by US Company II was completed in June 2017 and the liquidation of Elite Fund is in process. For the year ended 31st December, 2017, the Group shared profit of HK\$25.4 million and received cash distributions of US\$10.5 million from Elite Fund.

The Group holds 10% interest in Grand China Overseas Investment Fund, Ltd. and Grand China Overseas Investment Management Co., Ltd. (collectively "GCOI Fund"). GCOI Fund is a fund of funds which in turn invested in a couple of sub-funds. Each sub-fund focuses on a unique property project in the USA. Up to the end of 2017, GCOI Fund has invested eleven property projects in New York, Seattle, Los Angeles, Silicon Valley, Orlando, Dallas, Austin and Houston.

The Group holds 30% effective interest in the Sunnyvale project by injection of US\$57 million, in forms of equity and shareholder's loan, in a US investment company ("US Company III") which in turn made capital contribution to another US company (the "Project Company") for the development of 3-storey townhouses on three lots of land in Sunnyvale. In April 2017, the Project Company sold one of the three lots of land at a consideration of US\$63 million. Development work of 314 townhouses on the remaining two lots of land is in process. From August to December 2017, 60 townhouses were pre-sold. For the year ended 31st December, 2017, the Group received cash distribution of US\$20.5 million, being repayment of all outstanding shareholder's loan, accrued loan interest and release of partial equity, from US Company III.

Lion Trade Global Limited ("Lion Trade"), which is owned 70% by a wholly owned subsidiary of the Company and 30% by a wholly owned subsidiary of Build King, indirectly holds 75% interest in Wisdom H6 LLC ("JV Fund I"), a US joint venture company formed with GPI Investment LLC and GPI H6 LP (collectively "GPI"). In October 2017, Lion Trade and GPI contributed US\$14.1 million and US\$4.7 million respectively to JV Fund I to purchase a 4-storey residential rental property in Houston at the purchase price of US\$42.9 million which was satisfied as to US\$25.9 million by way of assumption of certain mortgage loan and as to US\$17 million in cash.



QUARRYING

Chairman's Statement

BUSINESS REVIEW (Cont'd)

Property Funds (Cont'd)

Lion Trade indirectly holds 34.35% interest in Estates at Fountain Lake LLC ("JV Fund II"), a US joint venture company formed with Fountain Oaks Property LLC ("Fountain Oaks"). In December 2017, Lion Trade and Fountain Oaks contributed US\$4.5 million and US\$8.6 million respectively to JV Fund II to purchase a 3-storey residential rental property in Stafford of Texas at the purchase price of US\$44.7 million which was satisfied as to US\$33.5 million by way of mortgage loan and as to US\$11.2 million in cash.

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year, total borrowings increased from HK\$991 million to HK\$1,113 million with the maturity profile summarised as follows:

| | At 31st December, | |
|---|----------------------|----------------------|
| | 2017 HK\$'million | 2016 HK\$'million |
| Within one year | 335 | 250 |
| In the second year | 391 | 170 |
| In the third to fifth year inclusive | 296 | 492 |
| Over five years | 91 | 79 |
| | 1,113 | 991 |
| Classified under: | | |
| Current liabilities (<i>note a</i>) | 390 | 301 |
| Non-current liabilities (<i>note b</i>) | 723 | 690 |
| | 1,113 | 991 |

Notes:

- (a) At 31st December, 2017, bank loans that are repayable over one year after the end of the reporting period but contain a repayment on demand clause with an aggregate carrying amount of HK\$55 million (2016: HK\$51 million) have been classified as current liabilities.
- (b) At 31st December, 2017, the amount included bonds with carrying amounts of HK\$128 million (2016: HK\$128 million) carrying fixed coupon interest of 7% per annum and HK\$91 million (2016: HK\$79 million) carrying fixed coupon interest of 5% per annum respectively.

During the year, the Group had no financial instruments for hedging purpose. At 31st December, 2017, apart from the bonds described above, the Group had no fixed-rate borrowings.

Chairman's Statement

FINANCIAL REVIEW (Cont'd)

Liquidity and Financial Resources (Cont'd)

At 31st December, 2017, total amount of the Group's bank balances and cash was HK\$1,306 million (2016: HK\$987 million), of which bank deposits amounting to HK\$0.04 million (2016: HK\$0.1 million) were pledged to banks to secure certain banking facilities granted to the Group. In addition, the Group has available unutilised bank and other borrowings facilities of HK\$894 million (2016: HK\$570 million) and HK\$50 million (2016: HK\$24 million) respectively.

For the year ended 31st December, 2017, the Group recorded finance costs of HK\$68 million (2016: HK\$69 million).

At 31st December, 2017, a portfolio of held-for-trading investments were stated at their fair values in a total amount of HK\$46 million (2016: HK\$26 million), comprising equity securities listed in Hong Kong. For the year ended 31st December, 2017, the Group recorded a net gain (net amount of change in fair value and dividend income) of HK\$23 million (2016: net loss of HK\$0.2 million) from these investments, of which net gain of HK\$23 million (2016: net loss of HK\$0.2 million) was derived from the securities invested by Build King.

The Group's borrowings, investments and bank balances are principally denominated in Hong Kong dollar, Renminbi and United States dollar. As a result, the Group is exposed to the currency risks for fluctuation in exchange rates of Renminbi and United States dollar. However, there is no significant exposure to foreign exchange rate fluctuations during the year. The Group will continue to monitor its exposure to the currency risks closely.

Capital Structure and Gearing Ratio

At 31st December, 2017, the equity attributable to owners of the Company amounted to HK\$7,063 million, representing HK\$8.90 per share (2016: HK\$5,952 million, representing HK\$7.50 per share). Increase in equity attributable to owners of the Company was mainly attributable to share of translation reserves of associates and profit generated after deduction of dividends paid during the year.

At 31st December, 2017, the gearing ratio, representing the ratio of interest bearing borrowings to equity attributable to owners of the Company, was 15.8% (2016: 16.6%) and the net gearing ratio, representing the ratio of net borrowings (interest bearing borrowings less bank balances and cash) to equity attributable to owners of the Company, was -2.7% (2016: 0.1%) as a result of total amount of bank balances and cash exceeding total amount of interest bearing borrowings.

Pledge of Assets

At 31st December, 2017, apart from the bank deposits pledged to secure certain banking facilities granted to the Group, certain vessels with an aggregate carrying value of HK\$140 million (2016: nil) and the shares of certain subsidiaries of the Company were pledged to secure certain bank loans and banking facilities granted to the Group. At 31st December, 2016, certain motor vehicles with an aggregate carrying value of HK\$3 million were also pledged to secure a bank loan granted to the Group.

Capital Commitments

At 31st December, 2017, the Group committed capital expenditure contracted for but not provided in the Group's consolidated financial statements of HK\$3 million (2016: HK\$101 million) in respect of acquisition of property, plant and equipment.

Chairman's Statement

FINANCIAL REVIEW (Cont'd)

Contingent Liabilities

At 31st December, 2017, the Group had outstanding tender/performance/retention bonds in respect of construction contracts amounting to HK\$721 million (2016: HK\$614 million).

FUTURE OUTLOOK

The Group's construction division recorded a growth of over 20% in terms of turnover and profit for 2017. With the record-high outstanding value of works on hand, the performance of this division in 2018 is promising.

It has been observed that the market prices for aggregates and concrete remain low and will continue at such levels in 2018. Coupled with shrinking of civil projects sector, the operators in both aggregates and concrete industries should face extremely challenging time in 2018. To handle the challenges, the Group would continue implementing cost control measures to strengthen our competitiveness.

The performance of the property funds in 2017 is satisfactory and it is anticipated to have some returns and cash distributions in 2018. The Group continues closely monitoring the performance of the property funds and looking for new investments in US properties.

We will keep looking for investment opportunities that create synergy for the Group to enhance the sustainable growth of the Group.

APPRECIATION

The Board would like to take this opportunity to extend its heartiest thanks to our shareholders, business partners, directors and our loyal and dedicated staff.

Zen Wei Pao, William

Chairman

Hong Kong, 8th March, 2018

Directors and Senior Management

EXECUTIVE DIRECTORS

ZEN Wei Pao, William, age 70, is the Chairman of the Company and has been with the Group since 1971. He was appointed as an Executive Director in July 1992, a member of the Remuneration Committee of the Company in April 2005 and the Chairman of the Nomination Committee of the Company in February 2012. He is also the Co-Chairman of Road King. He holds a Bachelor of Science Degree from The Chinese University of Hong Kong and a Master of Business Administration Degree from Asia International Open University (Macau). He also attended Executive Education Program at Harvard University and Stanford Executive Program at Stanford University. He is a member of both the Hong Kong Institution of Engineers and the Institute of Quarrying, the United Kingdom (“UK”). He has over 45 years of experience in civil engineering industry. Mr. Zen is responsible for the overall strategic planning and corporate marketing and development of the Group. He is the brother of Mr. Zen Wei Peu, Derek.

ZEN Wei Peu, Derek, age 65, is the Vice Chairman and Chief Executive Officer of the Company and has been with the Group for over 30 years. He was appointed as an Executive Director in July 1992, a member of the Remuneration Committee of the Company in April 2005 and a member of the Nomination Committee of the Company in February 2012. He is also the Chairman of Build King and the Co-Chairman of Road King. He holds a Bachelor of Science Degree in Engineering from The University of Hong Kong and a Master Degree of Business Administration from The Chinese University of Hong Kong and is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers and a fellow member of the Institute of Quarrying, UK. He was the Honorary Treasurer of Hong Kong Construction Association. He has over 40 years of experience in civil engineering. Mr. Zen is responsible for the overall management of the Group and oversees the operations of the Group. He is the brother of Mr. Zen Wei Pao, William.

CHIU Wai Yee, Anriena, age 54, was appointed as an Executive Director in June 2005. She joined the Group in April 1995. She is the Company Secretary of the Company. She holds a Bachelor of Administrative Studies Degree and a Master Degree of Professional Accounting. Miss Chiu is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She has extensive experience in company secretarial field. Miss Chiu is responsible for the construction materials division of the Group, the personnel and administration department and secretarial department of the Company.

Directors and Senior Management

NON-EXECUTIVE DIRECTORS

TSANG Yam Pui, age 71, was appointed as a Non-executive Director in December 2015. He is an Executive Director and the Chief Executive Officer of NWS Holdings Limited (“NWS”, a substantial shareholder of the Company and the shares of whose are listed on the Main Board of The Stock Exchange of Hong Kong Limited), and is a director of certain subsidiaries of NWS. He is the Vice Chairman of New World First Bus Services Limited, Citybus Limited, New World First Bus Services (China) Limited and New World First Ferry Services Limited. He is also a director of GHK Hospital Limited which owns and operates Gleneagles Hong Kong Hospital. Mr. Tsang is a director of Mapletree Investments Pte Ltd in Singapore and is the Chairman and a non-executive director of Mapletree Commercial Trust Management Ltd. (as manager of Mapletree Commercial Trust which is listed on the Singapore Stock Exchange). Prior to joining NWS, Mr. Tsang had served with the Hong Kong Police Force for 38 years and retired from the Police Force as its Commissioner in December 2003. He has extensive experience in corporate leadership and public administration. Mr. Tsang was awarded the Gold Bauhinia Star, the OBE, the Queen’s Police Medal, the Colonial Police Medal for Meritorious Service, the Commissioner’s Commendation, and the HKSAR Police Long Service Medal.

CHENG Chi Ming, Brian, age 35, was appointed as a Non-executive Director in February 2013. He holds a Bachelor of Science degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is presently an Executive Director of NWS. He is also a Non-executive Director of Haitong International Securities Group Limited and Leyou Technologies Holdings Limited, and the Chairman and a Non-executive Director of Integrated Waste Solutions Group Holdings Limited, all of whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. He is also a director of SUEZ NWS Limited and a number of companies in Mainland China. He is currently a member of the Thirteenth Shanghai Municipal Committee of the Chinese People’s Political Consultative Conference of The People’s Republic of China. He had been a member of the Eleventh Hangzhou Municipal Committee of the Chinese People’s Political Consultative Conference of The People’s Republic of China and subsequently resigned in February 2018. Prior to joining NWS, Mr. Cheng had been working as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets. He was a Non-executive Director of Newton Resources Ltd and Beijing Capital International Airport Co., Ltd., both of whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, and a Non-executive Director of Tharisa plc, whose shares are listed on the Johannesburg Stock Exchange Limited and the London Stock Exchange plc.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Che Ming, Steve, age 67, was appointed as an Independent Non-executive Director in July 1992. He was appointed as a member of the Audit Committee of the Company in July 1998, a member of the Remuneration Committee of the Company in April 2005 and a member of the Nomination Committee of the Company in February 2012. During the period from September 2001 to the first quarter of 2005, he served as the Chairman of the Audit Committee of the Company. He is a solicitor, Notary Public, China Appointed Attesting Officer and a member of The Chartered Institute of Arbitrators. He holds a Bachelor of Social Science Degree in Economics from The Chinese University of Hong Kong and a Doctorate Degree in Civil Laws from The Renmin University of China.

WAN Siu Kau, Samuel, age 66, was appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company in September 2001. He was appointed as the Chairman of the Remuneration Committee of the Company in April 2005 and a member of the Nomination Committee of the Company in February 2012. He holds a Master Degree of Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Business Administration and Accounting from The University of Hong Kong. He started his executive search career in 1988 and was previously Managing Partner and Vice Chairman of Amrop Hever, a global executive search firm. Prior to this, he was the Managing Director of Norman Broadbent's Hong Kong and China offices and was among the first generation of recruiters to establish a search practice in China. Earlier, he worked for Bank of America and Banque Nationale de Paris on both the human resources and business side. Mr. Wan was a Non-executive Director of Cinderella Media Group Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

WONG Man Chung, Francis, age 53, was appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company in August 2004. He was appointed as the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company in April 2005, as well as a member of the Nomination Committee of the Company in February 2012. Mr. Wong holds a Master Degree in Management conferred by Guangzhou Jinan University of China. He is a Certified Public Accountant (Practising) and has over 25 years of experience in the profession of accounting. He is a fellow member of the Association of Chartered Certified Accountants, UK, the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, and the Society of Chinese Accountants and Auditors, Hong Kong as well as a certified tax adviser of the Taxation Institute of Hong Kong. Mr. Wong is the Managing Director of Union Alpha CPA Limited and a Director of Union Alpha CAAP Certified Public Accountants Limited, which are professional accounting firms, and a Founding Director and member of Francis M. C. Wong Charitable Foundation Limited, a charitable institution. Prior to that, he worked for an international accounting firm for 6 years and The Hong Kong Securities Clearing Company Limited for 2 years. Mr. Wong is currently an Independent Non-executive Director, the Chairman of the audit committee and a member or the Chairman of the nomination committee and/or remuneration committee of China New Higher Education Group Limited, China Oriental Group Company Limited, Digital China Holdings Limited, Greenheart Group Limited, Hilong Holding Limited, Integrated Waste Solutions Group Holdings Limited and Kunming Dianchi Water Treatment Co., Ltd., all of whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. He is also an Independent Non-executive Director and a member of the strategy and investment committee of GCL-Poly Energy Holdings Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors and Senior Management

SENIOR MANAGEMENT

CHANG Kam Chuen, Desmond, age 52, joined the Group in May 1997 and is now an Executive Director and the Company Secretary of Build King. 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 Build King.

CHEUNG Siu Lun, age 67, joined the Group in 2006. He is a Director of Build King Construction Limited (“BKCL”), Build King Civil Engineering Limited (“Build King Civil”) and Build King (Zens) Engineering Limited (“Build King (Zens) Engineering”). He holds a Bachelor of Science Degree in Civil Engineering from The University of Hong Kong. He is a fellow of The Hong Kong Institution of Engineers. 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. Mr. Cheung is responsible for Build King’s business development.

KWOK Chi Ko, Enmale, age 61, 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 35 years of experience in building and construction industry. Mr. Kwok is responsible for Build King’s contract administration and commercial management for all building and construction related businesses.

LEE Man Wai, age 57, is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He has over 35 years of extensive experience in tendering and commercial management of civil engineering and building project in Hong Kong. Mr. Lee is responsible for Build King’s tendering activities.

LIU Sing Pang, Simon, age 56, is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He is a member of the Institution of Structural Engineers, a fellow member of the Hong Kong Institution of Engineer and a member of The Hong Kong Institute of Civil and Building Information Management. 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 the Registered Contractors’ Disciplinary Board Panel under the Buildings Ordinance. He has over 30 years of experience in civil engineering and building construction. Mr. Liu is responsible for Build King’s civil engineering operation in Hong Kong.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

LUI Yau Chun, Paul, age 57, has been working with the Group since 1998. 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 been a member of the Buildings Department Contractors Registration Committee (General Building Contractors) since January 2017. He has over 30 years of experience in civil and marine engineering. Mr. Lui is responsible for Build King's civil and marine engineering operation in Hong Kong.

MOK Hon Wa, Kenneth, age 54, is a Director of BKCL and Build King Civil. He holds a Master Degree of Applied Science in Civil Engineering from University of Windsor. He is a member of the Hong Kong Institution of Engineers, fellow of Hong Kong Institute of Construction Managers and Registered Professional Engineer in Hong Kong, Canada and USA. He has over 30 years of experience in building construction. Mr. Mok is responsible for the Group's building operation in Hong Kong.

SO Yiu Wing, Wilfred, age 43, 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 20 years of experience in civil engineering construction. Mr. So is responsible for Build King's civil engineering operation in Hong Kong.

WU Siu Ho, age 65, 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 is a member of The Institution of Mechanical Engineers and The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK. He has over 40 years of extensive experience in management of engineering companies. Mr. Wu is responsible for Build King's new business development.

YEOW Chin Lan, Denis, age 47, joined the Group in September 1999 and is the Financial Controller of Build King. He is a fellow member of the Association of Chartered Certified Accountants, UK. He has over 20 years of experience in auditing, accounting and financial management. Mr. Yeow is responsible for the financial management and accounting of Build King.

YIU Cheuk Hung, Kenneth, age 52, is a Director of BKCL. He holds an Executive Master Degree of Business Administration from The Chinese University of Hong Kong and a Master Degree of Project Management from University of South Australia. He is a member of the Hong Kong Institution of Engineers, the Chartered Institute of Building (UK) and the Hong Kong Institute of Construction Managers. He has over 30 years of experience in the construction industry including design, construction and project management. Mr. Yiu is responsible for Build King's building operation in Hong Kong.

Directors and Senior Management

SENIOR MANAGEMENT (Cont'd)

John **LEICH**, age 67, joined the Group in November 2010 and is a Director of Excel Concrete Limited responsible for the construction materials division of the Group. He holds a Bachelor's degree in Civil Engineering from the University of Sydney and has completed studies for a Master's degree in Business Administration at the University of Technology, Sydney. He is a member of the Institute of Quarrying. Mr. Leich was an Executive Director of Shui On Building Materials Limited and Lamma Rock Products Limited. He has over 35 years of experience in the concrete, cement and quarrying industries.

HO Kin Kwok, William, age 63, joined the Group in March 2010 and is the General Manager of construction materials division of the Group. Mr. Ho holds a Bachelor Degree of Business Administration from Shenzhen University and a Diploma in Management for Executive Development from The Chinese University of Hong Kong. He is also a Registered Assessor for ISO Quality System and a member of the Institute of Quarrying. He has extensive experience in the construction materials industry.

CHEUNG Kwan Man, Edmond, age 62, joined the Group in August 1994 and is the Group Financial Controller responsible for the financial management and the accounting department of the Group. He is also a Director of Wai Hing Quarries (China) Limited, Grandeur Building Material (Holdings) Limited and Faith Oriental Investment Limited. Mr. Cheung holds a Master Degree of Business Administration from Heriot-Watt University, UK. He is a fellow member of the Association of Chartered Certified Accountants, UK, a member of Chartered Professional Accountants of Canada and the Certified General Accountants' Association of Canada, as well as a full member of American Institute of Certified Public Accountants. He has extensive experience in auditing, accounting and financial management.

YAM Tin Chun, Martin, age 57, joined the Group in July 2007 as Internal Audit Manager of the Company and Build King. Mr. Yam holds a Master Degree of Business Administration from Manchester Business School and a Bachelor Degree in Laws from Peking University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, a Certified Information System Auditor, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has over 25 years of experience in internal audit. Consistent with ensuring the independence and integrity of the internal audit functions, Mr. Yam directly reports to Mr. Zen Wei Pao, William, the Chairman of the Company, and the Audit Committee Chairmen of the Company and Build King.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, principal associates and joint ventures are set out in notes 52, 21 and 22 to the consolidated financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2017, the five largest customers of the Group together accounted for approximately 77% of the Group's revenue, with the largest customer accounted for approximately 33%, and the five largest suppliers of the Group together represented approximately 8% by value of the Group's total purchases.

Except a Director having nominal beneficial interest in one of the Group's five largest customers as mentioned in the preceding paragraph, none of 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 31st December, 2017 are set out in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income on pages 71 and 72 respectively.

An interim dividend of HK3.8 cents per share was paid to shareholders during the year.

The Directors recommend the payment of a final dividend of HK22.5 cents per share for the year ended 31st December, 2017 to shareholders whose names appear in the register of members of the Company on Tuesday, 29th May, 2018. The amount of dividends paid for the year is set out in note 15 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, 6th July, 2018.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting to be held on Friday, 18th May, 2018, the register of members of the Company will be closed from Tuesday, 15th May, 2018 to Friday, 18th May, 2018, 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 Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 14th May, 2018.

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 Tuesday, 29th May, 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 28th May, 2018 to Tuesday, 29th May, 2018, 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 Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 25th May, 2018.

Directors' Report

BUSINESS REVIEW

The business review of the Group for the year ended 31st December, 2017 is set out in the sections headed "Financial Highlights" on pages 2 to 3, "Chairman's Statement" on pages 4 to 16, "Corporate Governance Report" on pages 36 to 48, "Consolidated Financial Statements" on pages 71 to 154 and "Financial Summary" on page 155. Description of the principal risks and uncertainties facing the Group can be found throughout this annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company are set out in notes 41 and 43 to the consolidated financial statements respectively.

During the year, there was no movement in the share capital and share options of the Company.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 75.

DISTRIBUTABLE RESERVES OF THE COMPANY

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is also available for distribution to the shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

- (a) it is, or would after the above payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than its liabilities.

The reserves of the Company which were available for distribution to the shareholders at 31st December, 2017 were approximately HK\$1,061,538,000.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

FINANCIAL SUMMARY

A summary of the results and of the financial position of the Group for the past five financial years is set out on page 155.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:

Zen Wei Pao, William (*Chairman*)
Zen Wei Peu, Derek (*Vice Chairman and Chief Executive Officer*)
Chiu Wai Yee, Anriena

Non-executive Directors:

Tsang Yam Pui
Cheng Chi Ming, Brian

Independent Non-executive Directors:

Wong Che Ming, Steve
Wan Siu Kau, Samuel
Wong Man Chung, Francis

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Zen Wei Pao, William, Mr. Cheng Chi Ming, Brian and Mr. Wong Man Chung, Francis shall retire from office by rotation at the forthcoming annual general meeting and, 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 received confirmation of independence from Dr. Wong Che Ming, Steve, Mr. Wan Siu Kau, Samuel and Mr. Wong Man Chung, Francis, being the Independent Non-executive Directors in respect of the year ended 31st December, 2017, pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all the Independent Non-executive Directors to be independent.

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31st December, 2017, the interests and short positions of the Directors of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are 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 and short positions which they were taken or deemed to have under such provisions of the SFO) or were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(I) The Company

Interests in shares

| Name of Director | Capacity/ Nature of interest | Number of shares held | | Percentage of the issued ordinary share capital |
|----------------------|------------------------------------|--------------------------------|----------------|---|
| | | Long position <i>(note)</i> | Short position | |
| | | | | % |
| Zen Wei Pao, William | Personal | 192,381,843 | – | 24.26 |
| Zen Wei Peu, Derek | Personal | 185,557,078 | – | 23.40 |
| Wong Che Ming, Steve | Personal | 900,000 | – | 0.11 |

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 AND SHORT POSITIONS (Cont'd)

(II) Associated Corporations

Interests in shares

| Name of Director | Name of company | Capacity/ Nature of interest | Number of shares held | | Percentage of the issued share capital |
|-----------------------|---|---------------------------------|-------------------------|----------------|--|
| | | | Long position | Short position | |
| | | | | | % |
| Zen Wei Pao, William | Build King Holdings Limited | Personal | 1,400,000 (note 1) | – | 0.11 (note 2) |
| | Wai Kee (Zens) Construction & Transportation Company Limited (note 3) | Personal | 2,000,000 (note 1) | – | 10.00 |
| | Wai Luen Stone Products Limited | Personal | 30,000 (note 1) | – | 37.50 |
| Zen Wei Peu, Derek | Build King Holdings Limited | Personal | 123,725,228 (note 1) | – | 9.96 |
| | Road King Infrastructure Limited | Personal | 19,649,000 (note 1 & 3) | – | 2.63 |
| | Wai Kee (Zens) Construction & Transportation Company Limited (note 4) | Personal | 2,000,000 (note 1) | – | 10.00 |
| | Wai Luen Stone Products Limited | Personal | 30,000 (note 1) | – | 37.50 |
| Chiu Wai Yee, Anriena | Build King Holdings Limited | Personal | 1,116,000 (note 1) | – | 0.09 |
| | Road King Infrastructure Limited | Personal | 205,000 (note 1) | – | 0.03 |
| Wong Che Ming, Steve | Build King Holdings Limited | Personal | 407,448 (note 1) | – | 0.03 |

Notes:

1. Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. As at 31st December, 2017, the issued share capital of Build King was 1,241,877,992 shares. Accordingly, the percentage has been adjusted.
3. Included in the balance is 1,000,000 Road King shares held by Ms. Luk Chan, the spouse of Mr. Zen Wei Peu, Derek.
4. With effect from 29th February, 2016, the name of Wai Kee (Zens) Construction & Transportation Company Limited has been changed to Build King (Zens) Engineering Limited.

Save as disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

Directors' Report

SHARE OPTIONS

(I) The Company

A share option scheme (the "Share Option Scheme") was adopted by the Company at the annual general meeting held on 15th May, 2012. No options have been granted under the Share Option Scheme since its adoption.

(II) Associated Corporation

The share option scheme was adopted by Road King on 8th May, 2013 ("Road King Share Option Scheme"). As at 31st December, 2017, Road King has granted 3,500,000 share options under Road King Share Option Scheme to two existing Directors of the Company, all share options granted to those Directors have been exercised.

Details of the share options granted under Road King Share Option Scheme to the following Director of the Company and a summary of the movements during the year are as follows:

| Name of Director | Date of grant | Exercisable period | Exercise price | Number of share options | | | Weighted average closing price* | |
|--------------------|----------------|----------------------------------|----------------|-------------------------|-------------------------|---------------------------|---------------------------------|-----------------------|
| | | | | Balance at 1.1.2017 | Granted during the year | Exercised during the year | | Balance at 31.12.2017 |
| | | | HK\$ | | | | HK\$ | |
| Zen Wei Peu, Derek | 28th May, 2013 | 29th May, 2013 to 28th May, 2018 | 7.13 | 1,500,000 | - | (1,500,000) | - | 8.85 |
| Total | | | | 1,500,000 | - | (1,500,000) | - | |

* This represents the weighted average closing price of the shares of Road King immediately before the date on which the share options were exercised.

Save as disclosed above, none of the Directors nor 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.

Directors' Report

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes as mentioned earlier, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company 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 indemnified and secured harmless out of the assets and profits of the Company and/or its subsidiaries from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts.

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

COMPETING INTERESTS

During the year and up to the date of this report, the following Directors had interest in the business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed under the Listing Rules:

| Name of Director | Name of entity | Competing business | Nature of interest |
|-------------------------|---|--|---------------------------|
| Zen Wei Pao, William | CMP Investment Group Limited | Property development in the PRC | Director and shareholder |
| Tsang Yam Pui | NWS Holdings Limited group of companies | Construction, toll road and infrastructure | Director |
| Cheng Chi Ming, Brian | NWS Holdings Limited group of companies | Construction, toll road and infrastructure | Director |

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 2017, so far as is known to any Director of the Company, the following persons (other than Directors of the Company) have interests or short positions in the shares and 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 pursuant to section 336 of the SFO:

| Name of shareholder | Capacity/ Nature of interest | Number of shares held | | Percentage of the issued ordinary share capital |
|--|------------------------------------|----------------------------------|----------------|--|
| | | Long position <i>(note 1)</i> | Short position | |
| | | | | % |
| Cheng Yu Tung Family (Holdings) Limited <i>(note 2)</i> | Corporate | 213,868,000 | – | 26.97 |
| Cheng Yu Tung Family (Holdings II) Limited <i>(note 3)</i> | Corporate | 213,868,000 | – | 26.97 |
| Chow Tai Fook Capital Limited <i>(note 4)</i> | Corporate | 213,868,000 | – | 26.97 |
| Chow Tai Fook (Holding) Limited <i>(note 5)</i> | Corporate | 213,868,000 | – | 26.97 |
| Chow Tai Fook Enterprises Limited <i>(note 6)</i> | Corporate | 213,868,000 | – | 26.97 |
| New World Development Company Limited <i>(note 7)</i> | Corporate | 213,868,000 | – | 26.97 |
| NWS Holdings Limited <i>(note 8)</i> | Corporate | 213,868,000 | – | 26.97 |
| NWS Service Management Limited (incorporated in the Cayman Islands) <i>(note 9)</i> | Corporate | 213,868,000 | – | 26.97 |
| NWS Service Management Limited (incorporated in the British Virgin Islands) <i>(note 10)</i> | Corporate | 213,868,000 | – | 26.97 |
| Vast Earn Group Limited <i>(note 11)</i> | Beneficial owner | 213,868,000 | – | 26.97 |

Notes:

1. Long position in the shares (other than pursuant to equity derivatives such as share options, warrants to subscribe or convertible bonds).
2. Cheng Yu Tung Family (Holdings) Limited is deemed to be interested in the shares through its interests in more than one-third of the issued share capital of Chow Tai Fook Capital Limited.
3. Cheng Yu Tung Family (Holdings II) Limited is deemed to be interested in the shares through its interests in more than one-third of the issued share capital of Chow Tai Fook Capital Limited.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Cont'd)

Notes: (Cont'd)

4. Chow Tai Fook Capital Limited is deemed to be interested in the shares through its interests in its subsidiary, namely Chow Tai Fook (Holding) Limited.
5. Chow Tai Fook (Holding) Limited is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely Chow Tai Fook Enterprises Limited.
6. Chow Tai Fook Enterprises Limited is deemed to be interested in the shares through its interests in more than one-third of the issued share capital of New World Development Company Limited.
7. New World Development Company Limited is deemed to be interested in the shares through its interests in its subsidiary, namely NWS Holdings Limited.
8. NWS Holdings Limited is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the Cayman Islands). Both Mr. Tsang Yam Pui and Mr. Cheng Chi Ming, Brian are executive directors of NWS Holdings Limited.
9. NWS Service Management Limited (incorporated in the Cayman Islands) is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely NWS Service Management Limited (incorporated in the British Virgin Islands). Both Mr. Tsang Yam Pui and Mr. Cheng Chi Ming, Brian are directors of NWS Service Management Limited (incorporated in the Cayman Islands).
10. NWS Service Management Limited (incorporated in the British Virgin Islands) is deemed to be interested in the shares through its interests in its wholly owned subsidiary, namely Vast Earn Group Limited. Both Mr. Tsang Yam Pui and Mr. Cheng Chi Ming, Brian are directors of NWS Service Management Limited (incorporated in the British Virgin Islands).
11. Vast Earn Group Limited is a wholly owned subsidiary of NWS Service Management Limited (incorporated in the British Virgin Islands). Both Mr. Tsang Yam Pui and Mr. Cheng Chi Ming, Brian are directors of Vast Earn Group Limited.

Save as disclosed above, no other person (other than Directors of the Company) has 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.

DISCLOSURES PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

- (1) On 15th February, 2016, Wai Kee Finance Limited, a wholly owned subsidiary of the Company, as borrower, the Company as guarantor and a bank as lender entered into a facility agreement in respect of HK\$380 million term loan facility (the "Facility") with final maturity date falling on 42 months from the first utilisation date of the Facility. Throughout the life of the Facility, (i) Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek should be executive directors of the Company; and (ii) Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek collectively own (directly or indirectly) at least 40% of beneficial shareholding interest in the issued share capital of the Company.
- (2) On 12th October, 2017, the Company confirmed its acceptance of a facility letter (the "Facility Letter") issued by a bank in respect of a term loan facility of up to HK\$273 million (the "Banking Facility") with the final maturity date falling 3 years from the date of the bank's receipt of the Company's acceptance of the Facility Letter. Throughout the life of the Banking Facility, Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek should collectively maintain at least 43% shareholding interest in the Company and maintain management control in the Company.

Save as disclosed above, as at 31st December, 2017 and up to the date of this report, the Company did not have other disclosure obligations under Rules 13.18 and 13.21 of the Listing Rules.

Directors' Report

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

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

| Name of Director | Details of changes |
|-------------------------|---|
| Zen Wei Pao, William | Mr. Zen's annual salary has been revised from HK\$377,000 to HK\$392,000 with effect from 1st April, 2018. |
| Zen Wei Peu, Derek | Mr. Zen's annual salary has been revised from HK\$6,418,000 to HK\$6,674,000 with effect from 1st April, 2018. |
| Chiu Wai Yee, Anriena | Miss Chiu's annual salary has been revised from HK\$2,142,000 to HK\$2,239,000 with effect from 1st April, 2018. |
| Tsang Yam Pui | On 28th February, 2018, Mr. Tsang entered into a Letter of Appointment with the Company for the period of three years from 1st March, 2018 to 28th February, 2021, subject to re-election. |
| Cheng Chi Ming, Brian | <p>Mr. Cheng resigned as a non-executive director of Beijing Capital International Airport Co., Ltd. (Stock Code: 694) on 2nd February, 2018. He was appointed as a member of the Thirteenth Shanghai Municipal Committee of the Chinese People's Political Consultative Conference of the People's Republic of China in January 2018, and he resigned as a member of the Eleventh Hangzhou Municipal Committee of the Chinese People's Political Consultative Conference of the People's Republic of China in February 2018.</p> <p>On 28th February, 2018, Mr. Cheng entered into a Letter of Appointment with the Company for the period of three years from 1st March, 2018 to 28th February, 2021, subject to re-election.</p> |
| Wong Che Ming, Steve | On 28th February, 2018, Dr. Wong entered into a Letter of Appointment with the Company for the period of three years from 1st March, 2018 to 28th February, 2021, subject to re-election. |
| Wan Siu Kau, Samuel | On 28th February, 2018, Mr. Wan entered into a Letter of Appointment with the Company for the period of three years from 1st March, 2018 to 28th February, 2021, subject to re-election. |
| Wong Man Chung, Francis | On 28th February, 2018, Mr. Wong entered into a Letter of Appointment with the Company for the period of three years from 1st March, 2018 to 28th February, 2021, subject to re-election. |

CONNECTED TRANSACTIONS

Connected Transaction

(1) Operating Agreement with Fountain Oaks and GPI Investment

On 13th December, 2017, Prosperous Power US LLC ("Prosperous Power", a non-wholly owned subsidiary of the Company) entered into an operating agreement (the "Operating Agreement") with Fountain Oaks Property LLC ("Fountain Oaks") and GPI Investment LLC ("GPI Investment") in relation to the management of Estates at Fountain Lake LLC (the "JV Fund"), owned as to 34.35% and 65.65% by Prosperous Power and Fountain Oaks respectively. As members of the JV Fund, Prosperous Power and Fountain Oaks are to provide to the JV Fund pro rata to their interest, US\$4.5 million and US\$8.6 million respectively, to fund part of the purchase price payable by the JV Fund for the land parcels in the Estates at Fountain Lake, 10498 Fountain Lake Drive, Stafford, Texas, the USA, covering an area of approximately 13 acres (the "Fountain Lake Property") and the related transaction costs. GPI Investment will be the manager of the JV Fund and will receive a monthly property management fee to be agreed with the JV Fund. The total purchase price for the Fountain Lake Property is US\$44.7 million (approximately HK\$348.7 million), which was satisfied by the JV Fund as to US\$33.5 million by mortgage loan and US\$11.2 million in cash.

As at the date of execution of the Operating Agreement, GPI Investment is the general partner of GPI H6 LP. GPI Investment, together with GPI H6 LP, are interested in 25% of the interests of Wisdom H6 LLC (a subsidiary of the Company for the purpose of the Listing Rules), therefore GPI Investment is a connected person of the Company at the subsidiary level, and the entering into of the Operating Agreement and the transaction contemplated thereunder constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

The transaction was announced by the Company in its announcement dated 13th December, 2017, and is exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transaction

(2) Business Services Agreement with NWD

On 4th December, 2015, the Company entered into a business services agreement (the "2016 Business Services Agreement") with New World Development Company Limited ("NWD", which is a connected person of the Company by virtue of its being a substantial shareholder of the Company) for provision of services covering construction, maintenance, and project management related services including provision of services as main contractor, project manager, consultant and sub-contractor for a variety of works including superstructure, foundation, civil engineering, port and infrastructure facilities, maintenance, construction and interior decoration and other related services (the "Services") which may from time to time be provided by the Company and its subsidiaries (collectively the "Group") to NWD and its subsidiaries during the term of the 2016 Business Services Agreement which had an initial term of three years.

The 2016 Business Services Agreement has an initial term of three years from 1st January, 2016. Subject to re-compliance with the requirements of the applicable Listing Rules and other applicable laws and regulations at the relevant time or, alternatively, any waivers obtained from the strict compliance with such requirements, upon expiry of the initial term or subsequent renewal term, the 2016 Business Services Agreement is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules) unless a party under the 2016 Business Services Agreement gives a 30 days' prior written notice to the other party to terminate the 2016 Business Services Agreement.

CONNECTED TRANSACTIONS (Cont'd)

Continuing Connected Transaction (Cont'd)

(2) Business Services Agreement with NWD (Cont'd)

Annual caps, being the maximum aggregate value of transactions undertaken by members of the Group under the New Business Services Agreement for each financial year, are as follows:

| | Financial year ending 31st December, | | |
|-------------|--------------------------------------|---------------------|---------------------|
| | 2016 | 2017 | 2018 |
| | <i>HK\$'million</i> | <i>HK\$'million</i> | <i>HK\$'million</i> |
| Annual caps | 510 | 260 | 260 |

For the financial year ended 31st December, 2017, the relevant maximum aggregate value of the transactions was approximately HK\$257,620,000 and the transaction is disclosed in note 50 to the consolidated financial statements.

The continuing connected transaction contemplated under the 2016 Business Services Agreement was announced by the Company in its announcement dated 4th December, 2015 and approved by independent shareholders at the special general meeting of the Company held on 29th December, 2015.

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

- (a) in the ordinary course and usual course of business of the Company;
- (b) on normal commercial terms; and
- (c) on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31st December, 2017.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$377,000.

EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2017, the Group had 2,218 employees (2016: 2,105 employees), of which 2,158 (2016: 1,997) were located in Hong Kong, 59 (2016: 107) were located in the PRC and 1 (2016: 1) was located in UAE. For the year ended 31st December, 2017, the Group's total staff costs were HK\$1,079 million (2016: HK\$915 million).

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.

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

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 Pao, William

Chairman

Hong Kong, 8th March, 2018

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 risk management and internal control, appropriate risk-assessment, monitoring procedures and transparency to all shareholders and stakeholders.

Throughout the year of 2017, the Company has complied with the code provisions of Corporate Governance Code (the "Code") set out in Appendix 14 of the Listing Rules.

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 three Executive Directors, two 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 Pao, William (<i>Chairman</i>) | Tsang Yam Pui | Wong Che Ming, Steve |
| Zen Wei Peu, Derek (<i>Vice Chairman and Chief Executive Officer</i>) | Cheng Chi Ming, Brian | Wan Siu Kau, Samuel |
| Chiu Wai Yee, Anriena | | Wong Man Chung, Francis |

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, other than the Chairman, Mr. Zen Wei Pao, William, and the Vice Chairman and Chief Executive Officer, Mr. Zen Wei Peu, Derek, who are brothers.

THE BOARD (Cont'd)

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/her 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, risk management and internal control, 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.

THE BOARD (Cont'd)

Role and Delegation (Cont'd)

In order to enhance efficiency, the Board has delegated the Chief Executive Officer the day-to-day leadership and management of the Group. Management of the Group, on the other hand, is responsible for day-to-day operations of the Group under the supervision of the Chief Executive Officer.

The Board also ensures that 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 disclosures 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, all of which have been documented and communicated to the Directors and employees via Employees' Handbooks and internal memorandum to ensure good corporate governance 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 (Cont'd)

Board Meetings

The Board meets regularly at least four times each year and additional meetings are arranged if and when required. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. During the year, the attendance records of individual Directors at the Board meetings, meetings of three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee, and the annual general meeting held on 18th May, 2017 are set out below:

| Name of Director | Meetings attended/held | | | | Annual General Meeting held on 18th May, 2017 |
|---|------------------------|-------------------------|------------------------------|--------------------------------|---|
| | Board Meeting | Audit Committee Meeting | Nomination Committee Meeting | Remuneration Committee Meeting | |
| Executive Directors | | | | | |
| Zen Wei Pao, William (<i>Chairman</i>) | 5/5 | - | 2/2 | 3/3 | 1 |
| Zen Wei Peu, Derek (<i>Vice Chairman and Chief Executive Officer</i>) | 5/5 | - | 2/2 | 3/3 | 1 |
| Chiu Wai Yee, Anriena | 5/5 | - | - | - | 1 |
| Non-executive Directors | | | | | |
| Tsang Yam Pui | 5/5 | - | - | - | 1 |
| Cheng Chi Ming, Brian | 0/5 | - | - | - | 0 |
| Independent Non-executive Directors | | | | | |
| Wong Che Ming, Steve | 5/5 | 3/3 | 2/2 | 3/3 | 0 |
| Wan Siu Kau, Samuel | 5/5 | 3/3 | 2/2 | 3/3 | 1 |
| Wong Man Chung, Francis | 5/5 | 3/3 | 2/2 | 3/3 | 1 |

Note:

"-" Not Applicable

Notice of a regular Board meeting 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 meetings (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.

Corporate Governance Report

THE BOARD (Cont'd)

Board Meetings (Cont'd)

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/her interests or potential conflict of interests, if any, in any proposed transactions or issues discussed by the 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.

Induction and Continuous Professional Development

Directors should keep abreast of their collective responsibilities. Briefing of the Group's business is given to newly appointed Director and a comprehensive induction package including the statutory and regulatory obligations of a director of a listed company is also 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.

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 1st January, 2017 to 31st December, 2017 are summarized as follows:

| Name of Director | Type of continuous professional development |
|--|---|
| Executive Directors | |
| Zen Wei Pao, William | A,B,C |
| Zen Wei Peu, Derek | B,C |
| Chiu Wai Yee, Anriena | B,C |
| Non-executive Directors | |
| Tsang Yam Pui | B,C |
| Cheng Chi Ming, Brian | C |
| Independent Non-executive Directors | |
| Wong Che Ming, Steve | B,C |
| Wan Siu Kau, Samuel | B,C |
| Wong Man Chung, Francis | B,C |

A: giving talks at seminars and/or conferences and/or forum

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

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

Corporate Governance Report

THE BOARD (Cont'd)

Directors' and Officers' Liability Insurance and Indemnity

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

Chairman and Chief Executive Officer

The Chairman is Mr. Zen Wei Pao, William. The Chief Executive Officer is Mr. Zen Wei Peu, Derek.

To ensure a balance of power and authority, the positions of the Chairman and the Chief Executive Officer are clearly set out in writing and are separate.

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

The Chief Executive Officer is responsible for implementing the Board's approved strategies and policies, and supervising the day-to-day operations.

Detailed duties and responsibilities of the Chairman and the Chief Executive Officer are available on the website of the Company.

Board Diversity Policy

The Board has adopted a Board Diversity Policy. The Policy aims to set out the approach to achieve diversity on 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.

Corporate Governance Report

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 1998 and currently comprises three members, namely Mr. Wong Man Chung, Francis (Chairman of the Audit Committee), Dr. Wong Che Ming, Steve and Mr. Wan Siu Kau, Samuel, all of whom are Independent Non-executive Directors.

Role and Function

The main responsibilities of the Audit Committee are to review the consolidated financial statements and the external auditor's reports, and to monitor the integrity of the consolidated financial statements. It also assists the Board to oversee financial reporting system, risk management, internal control systems 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 31st December, 2017 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 31st December, 2016 and 2017, and the interim results of the Group for the six months ended 30th June, 2017;
- Review of the Group's financial information, financial reporting procedures, risk management, internal control systems, 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 provide non-audit services;
- Review of the audit plan for the financial year ended 31st December, 2017;
- 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 2017 and 2018 annual general meetings;

BOARD COMMITTEES (Cont'd)

Audit Committee (Cont'd)

Summary of Work Done (Cont'd)

- Review of the effectiveness of the internal audit function of the Company;
- Review of the 2018 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.

Nomination Committee

Composition

The Nomination Committee was set up in 2012 and currently comprises five members, namely Mr. Zen Wei Pao, William (Chairman of the Nomination Committee), Dr. Wong Che Ming, Steve, Mr. Wan Siu Kau, Samuel, Mr. Wong Man Chung, Francis and Mr. Zen Wei Peu, Derek. Except for Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek, being Executive Directors, 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.

BOARD COMMITTEES (Cont'd)

Nomination Committee (Cont'd)

Summary of Work Done

The following is a summary of the work performed by the Nomination Committee during the year ended 31st December, 2017 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;
- Assessment of the independence of the Independent Non-executive Directors;
- Review of the Board Diversity Policy and the measurable objectives for implementing diversity on the Board; and
- Determination of the rotation of the Directors for the annual general meeting to be held in May 2018.

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 on 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.

Remuneration Committee

Composition

The Remuneration Committee was formed in 2005 and currently comprises five members, namely Mr. Wan Siu Kau, Samuel (Chairman of the Remuneration Committee), Dr. Wong Che Ming, Steve, Mr. Wong Man Chung, Francis, Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek. Except for Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek, being Executive Directors, all other members are Independent Non-executive Directors.

Corporate Governance Report

BOARD COMMITTEES (Cont'd)

Remuneration Committee (Cont'd)

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 all Executive Directors and 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 31st December, 2017 and up to the date of this report:

- Review and approval of the Company's remuneration policy for 2017 and 2018;
- Approval of year end bonus of Executive Directors for 2016 and 2017;
- Approval of emoluments of Executive Directors (where Mr. Zen Wei Pao, William and Mr. Zen Wei Peu, Derek abstained from voting in determining their own remuneration) and senior management;
- Approval of 2017 and 2018 salary adjustment; and
- Recommendations on remuneration of Non-executive Directors (including Independent Non-executive Directors).

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 determines his/her own remuneration.

The remuneration of a Director is determined with reference to his/her duties and responsibilities with the Company and the prevailing market situation. Details of the emoluments of Directors for the year ended 31st December, 2017 are set out in note 12 to the consolidated financial statements of this annual report. The emoluments paid to senior management for the year ended 31st December, 2017 were within the following bands:

| | Number of Senior Management |
|--------------------------------|--|
| Up to HK\$2,000,000 | 4 |
| HK\$2,000,001 to HK\$4,000,000 | 11 |

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 31st December, 2017.

The Company has also adopted a code of conduct governing securities transactions by employees who are likely to be in possession of unpublished inside 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 inside 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 2017 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 31st December, 2017 are as follows:

| Type of services | Fee paid/ payable HK\$ |
|--------------------|------------------------------|
| Audit | 3,354,000 |
| Non-audit services | |
| Interim review | 1,040,000 |
| Other services | 552,000 |
| Total | 4,946,000 |

The statement of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, regarding its reporting responsibilities is set out in the Independent Auditor's Report on pages 63 to 70 forming part of this annual report.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL

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

The risk management process includes risk identification, risk assessment, risk control and risk monitoring. 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 risk management and internal control systems 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 31st December, 2017. The Audit Committee considered that the risk management and internal control systems of the Company and its subsidiaries were effective and adequate.

During the year, the internal audit team conducts systematic reviews of the Group's risk management and internal control systems by using a risk-based audit approach and reviews the effectiveness of the Group's systems of risk management and internal control against the framework of the Committee of Sponsoring Organization of the Treadway Commission in order to provide reasonable, but not absolute, assurance of the effectiveness of the systems. 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 recommendations to the Audit Committee on a timely 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

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.

Environmental, Social and Governance Report

The Company presents this Environmental, Social and Governance Report (the “ESG Report”) for the year ended 31st December, 2017 (“Reporting Period”), in accordance with Appendix 27 – Environmental, Social and Governance Reporting Guide of the Listing Rules.

This Report covers the Company’s principal businesses in quarrying and construction material production in Hong Kong, which are the Company’s main operations in which it has direct management control, excluding those managed by its listed subsidiary which is reported separately in its annual report.

To achieve sustainable development of the Company, we commit:

1. To enhance and promote the environmental protection in our operation activities by operating a conforming environmental management system and implementing environmental protection measures and practices;
2. to provide a safe and healthy workplace and providing career prospects through structured training and learning programmes to our employees as we recognize people is an asset to the Company; and
3. to foster strong relationships with the Community in the neighborhood of our business activities.

The Board of the Company has the overall responsibility for the Company’s ESG strategy and reporting. Our management is responsible for monitoring and managing ESG-related issues and risks and the effectiveness of the ESG management systems. The management personnel leading our various business activities, in conjunction with their respective staff, have for the purposes of this Report identified the following material ESG issues:

| ESG Aspects | HKEx ESG Reporting Guide Requirements | Section |
|-------------------------|--|---|
| A. Environmental | | |
| General Disclosure | Information on: <ol style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | ENVIRONMENTAL Environmental Policy – Compliance |

Environmental, Social and Governance Report

| ESG Aspects | HKEx ESG Reporting Guide Requirements | Section |
|-------------------------------------|--|---|
| Aspect A1 | Emissions | |
| Emissions | <ol style="list-style-type: none"> 1. Air Pollution 2. Waste Water Discharge 3. Waste Management 4. Greenhouse Gas Emission | ENVIRONMENTAL Emissions |
| Aspect A2 | Use of Resources | |
| Use of Resources | <ol style="list-style-type: none"> 1. Use of Energy 2. Use of water | ENVIRONMENTAL Use of Resources |
| Aspect A3 | Environmental and Natural Resources | |
| Environmental and Natural Resources | <ol style="list-style-type: none"> 1. Noise Pollution 2. Landscape and Visual | ENVIRONMENTAL Environment and Natural Resources |
| B. Social | | |
| General Disclosure | <p>Information on:</p> <ol style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, health and safety, development and training, labour standards, supply chain management, product responsibility, data privacy, anti-corrupt practices and community investment. | SOCIAL Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance |

Environmental, Social and Governance Report

| ESG Aspects | HKEx ESG Reporting Guide Requirements | Section |
|--------------------------|---|--|
| Aspect B1 | Employment | |
| Employment | Employment Practices and Equal Opportunity | SOCIAL Employment |
| Aspect B2 | Health and Safety | |
| Health and Safety | Workplace Health and Safety | SOCIAL Health and Safety |
| Aspect B3 | Development and Training | |
| Development and Training | Staff Development and Training | SOCIAL Development and Training |
| Aspect B4 | Labour Standards | |
| Labour Standards | Anti-Child and Forced Labour | SOCIAL Labour Standards |
| Aspect B5 | Supply Chain Management | |
| Supply Chain Management | Management of suppliers of raw materials and other resources to achieve sustainable outcome | SOCIAL Supply Chain Management |
| Aspect B6 | Product Responsibility | |
| Product Responsibility | Products and Services Quality Assurance to achieve Customer satisfaction and Protection of Data | SOCIAL – Product Responsibility – Data Privacy |
| Aspect B7 | Anti-Corruption | |
| Anti-Corruption | Preventative measures taken and practices implemented to prevent corrupt practices | SOCIAL Anti-Corruption |
| Aspect B8 | Community Investment | |
| Community Investment | Supporting the Community and proactive engagement to foster harmonious existence | SOCIAL Community Investment |

With reference to the ESG Guide of Stock Exchange and the above identified ESG issues the various aspects are presented in greater detail.

A. ENVIRONMENTAL

Environmental Policy – Compliance

The Company has established an Environmental Policy which is communicated to our employees, under which we aim to:

1. work with our customers, sub-contractors and community groups to minimize nuisance to the public and to comply with all relevant contractual obligations and statutory requirements; and
2. ensure that every employee is appraised of and takes an active role in compliance with all relevant environmental legislations including but not limited to laws and regulations for air, water, noise and waste, through the provision of information, training and resources in sustainable development, including the conservation of natural resources, optimization of energy efficiency and development of green procurement and technologies.

To achieve our objectives, we work towards conforming with the requirements of ISO 14001:2004 – Environmental Management Systems. We implement an environmental management system which enables the monitoring of environmental performance, and the identification of significant environmental aspects that can be influenced by us.

We have not identified any material non-compliance of environmental laws and regulations during the Reporting Period.

A1 Emissions

A1.1 Air Pollution

In our production activities, dust and exhaust gases are generated from vehicle movements and production machinery during operations. All our plant and machinery, including stationary machinery and non-road mobile machinery, comply with the requirements of the Air Pollution Control Ordinance in limiting the amount of air emission.

To minimize dust generation, we implement dust suppression measures at our production sites, including the following measure:

1. Installation of effective adequate water sprayers for dust suppression on the stockpiles and whenever the plants are in operation;
2. Maintenance of high standard of housekeeping. Any deposit or mud shall not be accumulated on the haul roads or inside the plant;
3. Hard paving all haul roads which are kept moist adequately by water spraying at least once every two hours; installation of effective vehicle cleaning facility to operate to thoroughly wash down muddy materials from the vehicle body and wheels before vehicles leave the site;

A. ENVIRONMENTAL (Cont'd)

Environmental Policy – Compliance (Cont'd)

A1 Emissions (Cont'd)

A1.1 Air Pollution (Cont'd)

4. Coverage of trucks carrying crushed and screened products with tarpaulin sheet before leaving the premises; and
5. Daily use of water tank trucks and street washing vehicles for dust suppression both in public and site areas.

To control the amount of air pollutant emission from transportation activities, we give due consideration to the environmental performance of the vehicles before purchase. We therefore give preference to the purchase of vehicles complying with international environmental standards (e.g. the European Emission Standard) and we perform regular inspection and maintenance on our vehicles.

We generate respirable suspended particulates and nitrogen oxides at our production sites and during the transportation of materials in the course of our quarrying activities and concrete production.

To monitor the air pollution level, we measure the 24-hour average of the concentration of ambient respirable suspended particulates at the specified site locations at least once every 6 calendar days, and employ external environmental consultants to undertake regular inspection and report on various environmental aspects of the production sites, including air quality.

Those external consultancy reports have shown that the concentrations of respirable suspended particulates and nitrogen oxides produced by operations are below the Emission Limit, as stated in the Specified Processes Licenses issued by the Environmental Protection Department.

A1.2 Waste Water Discharge

Most of the water we use is consumed in our dust suppression measures and washing. In order to minimize the impact of sewage discharge to the surrounding environment, all washing water is collected, stored and recycled instead of being discharged outside the plant boundary.

To the extent that there is excessive water accumulation on site during the rainy season, we retain an external licenced collector to collect excess water for recycling purposes.

A. ENVIRONMENTAL (Cont'd)

Environmental Policy – Compliance (Cont'd)

A1 Emissions (Cont'd)

A1.2 Waste Water Discharge (Cont'd)

We implement measures in limiting waste water discharge which includes the following:

1. Recycling and reuse of the waste water generated from the washing down of vehicles, drum mixers, wheel washing facilities, and dust suppression activities within the site;
2. Ensuring that removal facilities are functioning properly all the times and silt and grit deposited removed regularly;
3. Reducing water consumption and maximizing the re-use of surface run-off water within the site;
4. Provision of water treatment plant to settle and to filter the runoff properly; and
5. Storage of rain water for further use on site.

A1.3 Waste Management

We have established waste management guidelines to control the disposal and generation of waste. Hazardous waste is segregated through stockpiling and storage at a secure area in identifiable containers for collection by licensed chemical waste collectors.

To enhance reduction of waste disposal, we implement waste management measures, which include:

1. Sorting recyclable materials like metal, paper, plastic, and milled bituminous material on site and deliver to a proper recycling outlet for processing;
2. Strictly following the procedures based in the Trip Ticket System to dispose of construction waste;
3. Avoiding the use of timber for temporary works construction; and
4. Providing guidance and instruction on waste management implementation to designated personnel and training on waste management to all site staff.

A. ENVIRONMENTAL (Cont'd)

Environmental Policy – Compliance (Cont'd)

A1 Emissions (Cont'd)

A1.4 Greenhouse Gas Emission

Our business activities generate greenhouse gases. To reduce the greenhouse gas emission, we implement energy and saving measures resources (see “A2 Use of Resources” below) to minimize the consumption of natural resources.

We also monitor the carbon content of our procured raw materials. We use Ground Granulated Blastfurnace Slag (“GGBS”) (which is classified as an environmentally friendly construction material) for our concrete production as it requires less energy to produce than traditional Portland cement production and can therefore significantly reduce greenhouse gas emission in concrete manufacturing.

A2 Use of Resources

We seek to improve environmental performance through improvement of the efficiency in the usage of fuel, electricity, and water in production.

We monitor the usage of resources on an ongoing basis and undertake analysis for unusually high usage so that we can implement remedial measures. In addition, we also communicate to employees to implement our resources saving initiatives.

A2.1 Use of Energy

To reduce energy consumption, energy efficient machinery is deployed such as diesel operated machinery meeting the Euro 5 standard. We also perform daily inspection and maintenance on machinery in keeping the optimal performance. To optimize the use of energy supporting transportation, we plan the delivery schedule efficiently in reducing the number of trips required.

Under our Environmental Management System, the use of energy is recorded for monitoring purpose to ensure future usage trends can be estimated and measures taken to reduce the energy used.

A2.2 Use of Water

Water is consumed in dust suppression measures and the production processes. The Company also implements water treatment and recycling facilities to recover water resources. Please refer to the “A1.2 Waste Water Discharge” section above for detailed measure implemented.

A3 The Environment and Natural Resources

We monitor our impact to the environment through our Environmental Management System which conforms to the ISO 14001:2004 requirements. Significant risks are assessed and reviewed to ensure we respond to them promptly with appropriate mitigating actions. We are committed to providing adequate and appropriate resources in reducing the adverse impacts to the environment.

A. ENVIRONMENTAL (Cont'd)

Environmental Policy – Compliance (Cont'd)

A3 The Environment and Natural Resources (Cont'd)

A3.1 Noise Pollution

To mitigate the noise nuisance during the production activities, we implement the following to reduce noise intensity:

1. Locating noisy activities and machinery as far away as possible from sensitive receivers; and
2. Purchasing equipment that generates lower noise, and fully enclosing noise sources, such as concrete mixers, conveyors, rock crushers and undertaking regular maintenance of plant and machinery.

A3.2 Landscape and Visual

As we may need to remove trees at our quarrying and concrete manufacturing site, we undertake an environmental impact analysis based on criteria such as the existing site condition, the legal requirements, the contractual and other requirements, the proposed designs and construction methods and potential environmental constraints. Based on such analysis, we formulate appropriate mitigation measures to reduce impact on the environment, such as planting trees or using screen hoardings to provide screening of the production site and reducing light pollution by controlling the amount of external lighting we use.

B. SOCIAL

Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance

We document our policies and practices on employee recruitment, dismissal, movement, compensation, working hours, rest periods, welfare, and other employment practices.

Similarly, our Health and Safety Policy is designed to provide a healthy and safe working environment of the highest practical standard for all its employees, subcontractors, customers, public and others who may be affected by our operations.

B. SOCIAL (Cont'd)

Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance (Cont'd)

We prohibit child and forced labour in any of our operations.

As we are committed to providing our products and services that consistently meet customer requirements, we adopt international standards on quality control practices.

The Company values the confidentiality of personal and sensitive commercial data. In addition to compliance with the Personal Data (Privacy) Ordinance, we also implement internal control measures to preserve the confidentiality of all our operation data.

We have zero tolerance for corruption, bribery, money-laundering, and any other kind of business fraud and as such all Employees (including management) are required to adhere to conditions in the Company's Code of Conduct and included in the Employee Handbook.

For all the above, we have not identified any material non-compliance to employment laws and regulations, any case of health and safety laws and regulations, any case of child and forced labour laws and regulations, any case of product and service quality laws and regulations, any case in relation to business fraud laws and regulations during the Reporting Period.

B1 Employment

Employment Practices and Equal Opportunity

Recognising that employees are key contributors towards our success, we aim to create a harmonious working environment for our employees through competitive remuneration packages that are structured to be commensurate with individual responsibilities, qualification experience and performance and the provision of adequate development opportunities.

We also recognise that appropriate work-life balance can help reduce the stress to staff and contribute towards increasing their overall productivity. We therefore seek to allow our staff adequate rest by managing their working hours and leave having regard to operation needs and statutory requirements.

We believe in meritocracy and in equal opportunities and diversity in terms of age, sex, nationality, disability and religion. No discrimination is tolerated, and employees are encouraged report on discriminatory practices to the management.

B. SOCIAL (Cont'd)

Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance (Cont'd)

B2 Health and Safety

Workplace Health and Safety

Occupational Health and Safety is top priority of our operation. In recognising the inherent risk in our daily operation, we conduct regular risk assessment to provide our employees with a healthy and safe working environment.

To this end, we:

1. Specify in writing, managerial responsibilities and accountability for health, safety and welfare of employees, subcontractors and others who may be affected;
2. Provide appropriate safety training and instructions generally and for use of new production methods and equipment; and
3. Monitor compliance with our health and safety systems to ensure compliance with statutory and contractual requirements and consider and implement appropriate improvements to existing systems.

B3 Development and Training

Staff Development and Training

We encourage personal development of our staff and discussion with supervisors on their learning plans. We provide structured training programmes in the form of workshops, talks, seminars, peer learning, and on-the-job coaching for our staff having regard to their positions, job responsibilities and experience, and provide subsidy and authorise leave to support appropriate external professional training.

B4 Labour Standards

Anti-Child and Forced Labour

We prohibit child and forced labour in any of our operations.

B. SOCIAL (Cont'd)

Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance (Cont'd)

B5 Supply Chain Management

Sustainable Supply Chain

As suppliers have a direct impact on the Company's sustainability performance, we seek to incorporate green practices in our procurement activities, by taking into account in our supplier selection process, their environmental and social performances, such as their choice of raw materials, use of natural resources, product health and safety, employment practices and occupational safety measures. We also monitor their performance periodically and encourage our suppliers and contractors to implement environmental and social measures.

B6 Product Responsibility

B6.1 Products and Services Quality Assurance

We recognise that customer satisfaction and support are essential for our growth and profitability. As we are committed to providing our products and services that consistently meet customer requirements, we adopt international standards on quality control practices, including the ISO 9001:2008 and the ISO 9001:2015 – Quality Management Systems for our quarrying and construction materials manufacturing, and the latest Quality Scheme for Production and Supply of Concrete (QSPSC) for the design, manufacture, inspection and delivery of ready mixed concrete, and the latest Quality Management System for Design, Production and Supply of Bituminous Materials: and Provision of Road Paving Services.

We implement quality objectives at operating level (including the deployment of quality control personnel to ensure delivery of products in compliance with the specifications and agreed standards. We regularly review the effectiveness of our quality management systems, seek customer feedback (including through annual customer satisfaction surveys of a representative sample of customers) and attend to customer complaints, so that we can consider and implement appropriate measures for improvement.

B6.2 Data Privacy

The Company values the confidentiality of personal and sensitive commercial data. In addition to compliance with the Personal Data (Privacy) Ordinance, we also implement internal control measures to preserve the confidentiality of our operation data, including information regarding our suppliers, business partners, customers and ourselves. We require in our code of conduct and our terms of employment strict adherence to the Company's data privacy and confidentiality policies.

B. SOCIAL (Cont'd)

Employment, Health and Safety, Labour, Product, Data and Anti-Corruption Policies – Compliance (Cont'd)

B7 Anti-Corruption

Anti-Corruption

We have zero tolerance for corruption, bribery, money-laundering, and any other kind of business fraud. Employees (including management) are required to adhere to reference to the Company's Code of Conduct and Employee Handbook that are designed to eliminate such activities. We also implement internal control procedures to ensure compliance with such requirements and a whistle-blowing channel for the reporting of violation(s).

B8 Community Investment

Supporting the Community

To contribute towards the promotion of harmony and stability of the society, we communicate with non-government entities and charities to understand the needs of our community, participate in community events and make donations to causes that help those who are in need.

During the Reporting Period, The Company has participated in the following community events:

1. Hong Kong and Kowloon Walk for Millions 2017
2. Corporate and Employees Contribution Program 2017/2018
3. Skip Lunch Day 2017
4. Mooncake Charity Sale in 2017
5. "Red Twinkle Star" Campaign 2017/2018
6. Love Teeth Day 2017/2018
7. Small Talks Circles Title Sponsorship 2017/2018

Also, our operations are located at Tin Wan and Lam Tei, and other locations in Hong Kong. Whenever the scale of the operations are significant, such as at Tin Wan and Lam Tei, close ties have been established with the local communities through Liaison Committees that hold regular meetings to communicate on range of issues that our activities have on the neighborhood so that if issues of concern arise they are resolved to mutual satisfaction promptly.

Environmental, Social and Governance Report

PERFORMANCE DATA SUMMARY 2017

| Environment | | |
|------------------------------|---------------------------------------|-----------|
| Environment | Total Resources Consumption | |
| | Electricity (kWh) | 3,744,943 |
| | Diesel (litres) | 2,316,584 |
| | Petrol (litres) | 13,205 |
| | Water (m ³) | 143,792 |
| | Types of Emissions | |
| | Nitrogen oxides (kg) | 18,050.37 |
| | Sulphur oxides (kg) | 23.85 |
| | Particulate matter (kg) | 1,301.28 |
| | Greenhouse Gases Emissions | |
| | Total emissions (kgCO ₂ e) | 8,824,693 |
| | Scope I (kgCO ₂ e) | 6,047,121 |
| | Scope II (kgCO ₂ e) | 2,693,020 |
| | Scope III (kgCO ₂ e) | 84,552 |
| | Waste | |
| | Waste Water (tonnes) | 6,724 |
| Hazardous waste (tonnes) | 11.2 | |
| Non-hazardous waste (tonnes) | 42,202 | |

Environmental, Social and Governance Report

PERFORMANCE DATA SUMMARY 2017 (Cont'd)

| Employment | | |
|---|---|-----|
| Social | Total Workforce | 219 |
| | by Age: | |
| | <30 | 30 |
| | 30-39 | 32 |
| | 40-49 | 43 |
| | ≥50 | 114 |
| | by Gender: | |
| | Female | 30 |
| | Male | 189 |
| | by Professional Profile: | |
| | Director | 4 |
| | Managerial | 25 |
| | Supervisory | 28 |
| | General | 29 |
| | Operational | 133 |
| | Employee Turnover | |
| | by Age: | |
| | <30 | 17 |
| | 30-39 | 17 |
| | 40-49 | 27 |
| | ≥50 | 42 |
| | Occupational Health and Safety | |
| | Work-related injuries | 0 |
| | Work-related fatalities | 0 |
| | Accident Frequency Rate (per 100,000 man hours) | 0 |
| Accident Frequency Rate (per 1,000 workers) | 0 | |
| Training and Development | | |
| Average Training Hours | 3.92 | |
| Percentage of Employees Trained | | |
| by Professional Profile: | | |
| Director | 100% | |
| Managerial | 95% | |
| Supervisory | 100% | |
| General | 80% | |
| Operational | 100% | |



TO THE SHAREHOLDERS OF WAI KEE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Wai Kee Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 154, which comprise the consolidated statement of financial position as at 31st December, 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p><i>Impairment of interest in an associate</i></p> <p>We identified the impairment of interest in an associate as a key audit matter because the impairment assessment of the Group's interest in Road King Infrastructure Limited ("Road King"), an associate of the Group, requires a comparison of its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. As the fair value less costs of disposal of the listed shares of Road King is lower than the value in use, the management determined the recoverable amount of Road King using the value in use calculation. As disclosed in note 21 to the consolidated financial statements, the carrying amount of interest in Road King was HK\$6,502,750,000.</p> <p>The value in use calculation requires the Group to estimate the future cash flows expected to be generated from the dividends to be received from Road King and the proceeds on the ultimate disposal of the investment with assumptions of suitable growth rate and discount rate in order to calculate the present value.</p> | <p>Our procedures in relation to the impairment assessment of interest in Road King included:</p> <ul style="list-style-type: none">• Comparing the value in use and fair value less costs of disposal to determine the recoverable amount of Road King;• Evaluating the management's estimation of the future cash flows expected to be generated from the dividends to be received from Road King, obtaining the present value of the estimated future cash flows for value in use calculation and comparing the growth rate of the net cash flows from the operations to the average growth rate of the earnings per share of Road King in the past years;• Evaluating the reasonableness of the expected dividend yield adopted by the Group based on the past experience of the Group; and• Evaluating the reasonableness of the discount rate used in the cash flow projections. |

Independent Auditor's Report

KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p><i>Recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work</i></p> <p>We identified the recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work as a key audit matter because the Group recognised revenue from construction contracts using the percentage of completion method, measured by reference to the value of work performed during the year and the estimated total contract value including variations in contract work, claims and incentive payments which involve the management's best estimates and judgments, as disclosed in note 4 to the consolidated financial statements.</p> <p>The management estimated the construction costs which mainly comprise sub-contracting charges and costs of materials based on the quotations from time to time provided by the major contractors/suppliers/vendors and the experience of the management.</p> | <p>Our procedures in relation to the recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work included:</p> <ul style="list-style-type: none">• Agreeing the budget construction revenue to the construction contracts and variation orders, if any, and architect's instructions or other form of agreements or other correspondences, and discussing with the project managers to evaluate the reasonableness of their estimated total budget contract revenue based on the size and complexity of the construction contracts, on a sample basis;• Discussing with the project managers to evaluate the reasonableness of their estimated construction costs, taking into account the profit margin of similar projects, the duration and the complexity of the projects etc;• Discussing with the project managers to understand the status of completion of the relevant construction projects and the reasons for the change of budget contract value and contract costs during the year;• Verifying the reasonableness of estimated total costs by matching against the latest costs quotations provided by the major contractors/suppliers/vendors on a sample basis; |

Independent Auditor's Report

KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <i>Recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work (Cont'd)</i> | <ul style="list-style-type: none">• Verifying whether value of work has been reasonably recognised as contract revenue, by performing the following procedures on a sample basis:<ol style="list-style-type: none">(1) Checking to the latest certificate issued by the independent surveyors ("Surveyors") before year end date for the verification of the value of work already performed during the year;(2) Checking to the Group's internal construction progress report and other supporting documents for those work already performed but not yet certified by the Surveyors before year end;(3) Checking to the certificates issued by the Surveyors subsequent to year end date, to verify the uncertified work before year end has been subsequently certified by the Surveyors; and• Checking calculation of stage of completion, on a sample basis and performing comparisons between the percentage of completion and the percentage of progress billing on selected contracts to identify and investigate any significant differences. |

Independent Auditor's Report

KEY AUDIT MATTERS (Cont'd)

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p><i>Recoverability of trade receivables and retention receivables</i></p> <p>We identified the recoverability of trade receivables and retention receivables as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, and there is a risk that the amount recorded is not fully recoverable. As disclosed in note 29 to the consolidated financial statements, trade receivables and retention receivables of the Group carried at HK\$1,272,801,000 and HK\$454,921,000, respectively, which represents 11% and 4% of the Group's total assets, respectively.</p> <p>The Group may be exposed to risk of default in respect of trade receivables and retention receivables for the construction projects with disputes with customers or unforeseen delay.</p> | <p>Our procedures in relation to the recoverability of trade receivables and retention receivables included:</p> <ul style="list-style-type: none">• Obtaining the aging and breakdown of trade receivables and retention receivables, assessing their history of repayment and focusing on long-aged debts for which no provision had been made;• Evaluating the credit control policy of the Group and assessing management's judgement on provision of long-aged balances; and• Discussing with the project managers for their evaluation of the impact of disputes with customers and unforeseen delay of construction projects, if any, on the recoverability of trade receivables and retention receivables and checking to relevant correspondences and documents to assess the reasonableness of project managers' evaluation. |

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam Chi Hong.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8th March, 2018

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--------------------------------------|--------------|--------------------------------|-------------------------|
| Revenue | 5 | 6,500,117 | 5,327,112 |
| Cost of sales | | (5,864,366) | (4,754,397) |
| Gross profit | | 635,751 | 572,715 |
| Other income | 7 | 60,619 | 87,581 |
| Investment income, gains and losses | 8 | 23,287 | (207) |
| Selling and distribution costs | | (90,998) | (81,707) |
| Administrative expenses | | (355,631) | (342,535) |
| Finance costs | 9 | (67,505) | (68,600) |
| Share of results of associates | | 833,456 | 516,463 |
| Share of results of joint ventures | | 9,968 | 7,512 |
| Other gains and losses | 10 | 15,390 | 72,764 |
| Profit before tax | 11 | 1,064,337 | 763,986 |
| Income tax expense | 14 | (70,048) | (29,573) |
| Profit for the year | | 994,289 | 734,413 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 912,462 | 669,320 |
| Non-controlling interests | | 81,827 | 65,093 |
| | | 994,289 | 734,413 |
| | | HK cents | <i>HK cents</i> |
| Earnings per share | 16 | | |
| – Basic | | 115.05 | 84.39 |
| – Diluted | | 114.90 | N/A |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2017

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------------------------|------------------|
| Profit for the year | 994,289 | 734,413 |
| Other comprehensive income (expense) | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation of foreign operations | 9,602 | (7,362) |
| Share of translation reserves of associates | 355,564 | (309,736) |
| Other comprehensive income (expense) for the year | 365,166 | (317,098) |
| Total comprehensive income for the year | 1,359,455 | 417,315 |
| Total comprehensive income for the year attributable to: | | |
| Owners of the Company | 1,273,192 | 355,467 |
| Non-controlling interests | 86,263 | 61,848 |
| | 1,359,455 | 417,315 |

Consolidated Statement of Financial Position

At 31st December, 2017

| | Notes | 2017 HK\$'000 | 2016 HK\$'000 |
|--|-------|------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | 17 | 544,633 | 558,789 |
| Intangible assets | 18 | 510,864 | 580,244 |
| Goodwill | 19 | 29,838 | 29,838 |
| Interests in associates | 21 | 6,556,960 | 5,569,562 |
| Interests in joint ventures | 22 | 229,113 | 58,518 |
| Available-for-sale investments | 24 | 63,112 | 109,215 |
| Other financial asset | 25 | 42,909 | 41,128 |
| Loan and other receivables | 26 | – | 108,258 |
| Deposits paid for acquisition of property, plant and equipment | | 1,619 | 1,320 |
| | | 7,979,048 | 7,056,872 |
| Current assets | | | |
| Inventories | 27 | 56,886 | 63,002 |
| Amounts due from customers for contract work | 28 | 253,443 | 324,351 |
| Debtors, deposits and prepayments | 29 | 1,924,917 | 1,463,404 |
| Amounts due from associates | 30 | 14,168 | 12,786 |
| Amount due from a joint venture | 30 | – | 321 |
| Amounts due from other partners of joint operations | 30 | 134,934 | 39,643 |
| Tax recoverable | | 11,950 | 17,078 |
| Held-for-trading investments | 31 | 46,391 | 25,562 |
| Pledged bank deposits | 32 | 37 | 101 |
| Bank balances and cash | 32 | 1,305,972 | 986,452 |
| | | 3,748,698 | 2,932,700 |
| Current liabilities | | | |
| Amounts due to customers for contract work | 28 | 410,053 | 637,795 |
| Creditors and accrued charges | 33 | 2,284,541 | 1,588,586 |
| Amounts due to associates | 34 | 16,842 | 16,400 |
| Amount due to a joint venture | 34 | 1,142 | 1,142 |
| Amounts due to other partners of joint operations | 34 | 61,710 | 70,795 |
| Amounts due to non-controlling shareholders | 34 | 3,359 | 3,359 |
| Tax liabilities | | 61,301 | 22,648 |
| Bank loans | 35 | 389,721 | 301,011 |
| | | 3,228,669 | 2,641,736 |
| Net current assets | | 520,029 | 290,964 |
| Total assets less current liabilities | | 8,499,077 | 7,347,836 |

Consolidated Statement of Financial Position

At 31st December, 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Non-current liabilities | | | |
| Payable for extraction right | 36 | 335,294 | 386,495 |
| Provision for rehabilitation costs | 37 | 29,980 | 28,202 |
| Deferred tax liabilities | 38 | 5,750 | 5,750 |
| Obligations in excess of interests in associates | 21 | 17,246 | 16,208 |
| Amount due to an associate | 39 | 3,701 | 4,238 |
| Bank loans | 35 | 504,350 | 483,250 |
| Bonds | 40 | 219,350 | 206,580 |
| | | 1,115,671 | 1,130,723 |
| Net assets | | | |
| | | 7,383,406 | 6,217,113 |
| Capital and reserves | | | |
| Share capital | 41 | 79,312 | 79,312 |
| Share premium and reserves | | 6,983,417 | 5,873,007 |
| Equity attributable to owners of the Company | | 7,062,729 | 5,952,319 |
| Non-controlling interests | 42 | 320,677 | 264,794 |
| Total equity | | | |
| | | 7,383,406 | 6,217,113 |

The consolidated financial statements on pages 71 to 154 were approved and authorised for issue by the Board of Directors on 8th March, 2018 and are signed on its behalf by:

Zen Wei Pao, William
Chairman

Zen Wei Peu, Derek
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

| | Equity attributable to owners of the Company | | | | | | | | Non-controlling interests HK\$'000 (note 42) | Total equity HK\$'000 |
|--|--|---------------------------|--|---|--|---------------------------------------|------------------------------|-------------------|--|--------------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Translation reserve HK\$'000 (note 42) | Special reserve HK\$'000 (note a) | Assets revaluation reserve HK\$'000 | Other reserve HK\$'000 (note b) | Retained profits HK\$'000 | Total HK\$'000 | | |
| At 1st January, 2016 | 79,312 | 731,906 | 683,638 | (29,530) | 2,319 | (7,464) | 4,238,653 | 5,698,834 | 200,912 | 5,899,746 |
| Profit for the year | - | - | - | - | - | - | 669,320 | 669,320 | 65,093 | 734,413 |
| Other comprehensive expense for the year | - | - | (313,853) | - | - | - | - | (313,853) | (3,245) | (317,098) |
| Total comprehensive (expense) income for the year | - | - | (313,853) | - | - | - | 669,320 | 355,467 | 61,848 | 417,315 |
| Sub-total | 79,312 | 731,906 | 369,785 | (29,530) | 2,319 | (7,464) | 4,907,973 | 6,054,301 | 262,760 | 6,317,061 |
| Capital contribution from non-controlling shareholders | - | - | - | - | - | - | - | - | 15,685 | 15,685 |
| Distribution to non-controlling shareholders | - | - | - | - | - | - | - | - | (8,797) | (8,797) |
| Acquisition of additional interest in a subsidiary | - | - | - | - | - | (462) | - | (462) | (5,054) | (5,516) |
| Disposal of partial interest in a subsidiary without losing control (note c) | - | - | - | - | - | - | - | - | 200 | 200 |
| Dividends paid (note 15) | - | - | - | - | - | - | (101,520) | (101,520) | - | (101,520) |
| At 31st December, 2016 | 79,312 | 731,906 | 369,785 | (29,530) | 2,319 | (7,926) | 4,806,453 | 5,952,319 | 264,794 | 6,217,113 |
| Profit for the year | - | - | - | - | - | - | 912,462 | 912,462 | 81,827 | 994,289 |
| Other comprehensive income for the year | - | - | 360,730 | - | - | - | - | 360,730 | 4,436 | 365,166 |
| Total comprehensive income for the year | - | - | 360,730 | - | - | - | 912,462 | 1,273,192 | 86,263 | 1,359,455 |
| Sub-total | 79,312 | 731,906 | 730,515 | (29,530) | 2,319 | (7,926) | 5,718,915 | 7,225,511 | 351,057 | 7,576,568 |
| Distribution to non-controlling shareholders | - | - | - | - | - | - | - | - | (13,869) | (13,869) |
| Acquisition of additional interest in a subsidiary | - | - | - | - | - | (1,778) | - | (1,778) | (16,611) | (18,389) |
| Disposal of partial interest in a subsidiary without losing control (note c) | - | - | - | - | - | - | - | - | 100 | 100 |
| Dividends paid (note 15) | - | - | - | - | - | - | (161,004) | (161,004) | - | (161,004) |
| At 31st December, 2017 | 79,312 | 731,906 | 730,515 | (29,530) | 2,319 | (9,704) | 5,557,911 | 7,062,729 | 320,677 | 7,383,406 |

Notes:

- (a) The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.
- (b) The other reserve represents the 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 regarding the changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries.
- (c) Build King Holdings Limited ("Build King"), the Company's 55.60% (2016: 52.78%) subsidiary whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), disposed of its 10% and 20% equity interest in a wholly owned subsidiary incorporated in Hong Kong, Build King Interior & Construction Limited, to a party at considerations of HK\$100,000 and HK\$200,000 on 20th November, 2017 and 16th December, 2016 respectively. The disposal had been accounted for as equity transaction. In the opinion of the directors, the difference between the considerations received and the net assets value disposed of was considered insignificant.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2017

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------------------------|------------------|
| Operating activities | | |
| Profit before tax | 1,064,337 | 763,986 |
| Adjustments for: | | |
| Finance costs | 67,505 | 68,600 |
| Share of results of associates | (833,456) | (516,463) |
| Share of results of joint ventures | (9,968) | (7,512) |
| Interest on loan and other receivables | (6,141) | (26,570) |
| Interest on bank deposits | (1,504) | (251) |
| Interest on amounts due from associates | (285) | (215) |
| Interest on other financial asset | (1,149) | (1,111) |
| Imputed interest on loan and other receivables | – | (99) |
| (Gain) loss on change in fair value of held-for-trading investments, net | (20,829) | 1,868 |
| Dividend income from held-for-trading investments | (2,458) | (1,661) |
| Discount on acquisition of additional interest in an associate | (49,084) | (72,404) |
| Loss on deemed disposal of partial interest in an associate | 34,368 | – |
| Gain on disposal of property, plant and equipment, net | (674) | (360) |
| Allowance for doubtful debts (reversed) recognised | (2,656) | 1,427 |
| Amortisation of intangible assets | 1,459 | 1,352 |
| Depreciation of property, plant and equipment | 46,471 | 55,419 |
| Operating cash flows before movements in working capital | 285,936 | 266,006 |
| (Increase) decrease in other financial asset | (1,781) | 3,496 |
| Decrease in inventories | 83,841 | 19,834 |
| Decrease in amounts due from customers for contract work | 183,765 | 174,412 |
| Increase in debtors, deposits and prepayments | (480,460) | (352,770) |
| Decrease in amounts due to customers for contract work | (227,742) | (26,995) |
| Increase in creditors and accrued charges | 615,651 | 26,308 |
| Cash from operations | 459,210 | 110,291 |
| Income taxes paid | (26,267) | (25,067) |
| Net cash from operating activities | 432,943 | 85,224 |

Consolidated Statement of Cash Flows

For the year ended 31st December, 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------|--------------------------------|------------------|
| Investing activities | | | |
| Interest received | | 3,026 | 2,362 |
| Dividends received from held-for-trading investments | | 2,458 | 1,661 |
| Dividends received from associates | | 242,938 | 155,038 |
| Proceeds from disposal of property, plant and equipment | | 2,143 | 1,548 |
| Purchase of property, plant and equipment | | (153,011) | (314,221) |
| Deposits paid for acquisition of property, plant and equipment | | (1,619) | (1,320) |
| Return of investment costs from associates | | 74,899 | 13,503 |
| Acquisition of interests in associates | | (100,461) | (41,804) |
| Cash contributions to joint ventures | | (160,627) | (51,006) |
| Return of investment in an available-for-sale investment | | 46,103 | – |
| Acquisition of available-for-sale investments | | – | (66,539) |
| Advances of loan and other receivables | | – | (379,458) |
| Settlement of loan and other receivables | | 135,954 | 300,217 |
| Advances to associates | | (1,097) | (2,361) |
| Repayment from a joint venture | | 321 | – |
| Advances to other partners of joint operations | | (95,291) | (15,277) |
| Withdrawal (placement) of pledged bank deposits | | 64 | (21) |
| Net cash used in investing activities | | (4,200) | (397,678) |
| Financing activities | | | |
| Interest paid | | (35,536) | (34,468) |
| Dividends paid | 15 | (161,004) | (101,520) |
| Acquisition of additional interest in a subsidiary | | (18,389) | (5,516) |
| Distributions to non-controlling shareholders | | (13,869) | (8,797) |
| Capital contribution from non-controlling shareholders | | – | 15,685 |
| (Repayments to) advances from associates | | (663) | 836 |
| (Repayments to) advances from other partners of joint operations | | (9,085) | 58,676 |
| New bank loans raised | | 320,310 | 659,338 |
| Repayments of bank loans | | (210,500) | (218,485) |
| Bonds issued, net | 40 | 12,250 | 55,370 |
| Proceeds from disposal of partial interest in a subsidiary without losing control | | 100 | 200 |
| Net cash (used in) from financing activities | | (116,386) | 421,319 |
| Net increase in cash and cash equivalents | | 312,357 | 108,865 |
| Cash and cash equivalents at the beginning of the year | | 986,452 | 881,851 |
| Effect of foreign exchange rate changes, net | | 7,163 | (4,264) |
| Cash and cash equivalents at the end of the year | | 1,305,972 | 986,452 |
| Analysis of the balance of cash and cash equivalents | | | |
| Bank balances and cash | | 1,305,972 | 986,452 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, principal associates and joint ventures are set out in notes 52, 21 and 22 respectively.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

| | |
|------------------------|--|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle |

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in the Group’s consolidated financial statements.

Amendments to HKAS 7 “Disclosure Initiative”

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 51. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for prior year. Apart from the additional disclosure in note 51, the application of these amendments has had no effect on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

New and amendments to HKFRSs that have been issued but are not yet effective

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

| | |
|------------------------------------|--|
| HKFRS 9 | Financial Instruments ¹ |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments ¹ |
| HKFRS 16 | Leases ² |
| HKFRS 17 | Insurance Contracts ³ |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments ² |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹ |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures ² |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹ |
| Amendments to HKAS 40 | Transfers of Investment Property ¹ |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle ² |

¹ Effective for annual periods beginning on or after 1st January, 2018.

² Effective for annual periods beginning on or after 1st January, 2019.

³ Effective for annual periods beginning on or after 1st January, 2021.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

HKFRS 9 “Financial Instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair values at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss; and
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 “Financial Instruments: Recognition and Measurement”. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies at 31st December, 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in note 26: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9; and
- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 24: these securities qualified for designation as measured at FVTOCI under HKFRS 9. However, the Group plans not to elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gains or losses related to these securities, representing the differences between the cost less impairment and fair value would be adjusted to retained profits at 1st January, 2018.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

HKFRS 9 “Financial Instruments” (Cont’d)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

If the expected credit loss model were to be applied by the Group, the accumulated impairment loss to be recognised by the Group at 1st January, 2018 would be slightly increased as compared to the accumulated impairment loss recognised under HKAS 39 mainly attributable to expected credit losses provision on financial assets. The increase in impairment loss to be recognised under the expected credit loss model would reduce the opening retained profits at 1st January, 2018.

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; and
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

HKFRS 15 “Revenue from Contracts with Customers” (Cont’d)

As regards the construction contracts, the directors specifically consider HKFRS 15’s guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to customers and timing of related payments. The directors have assessed that performance obligation is satisfied over time, therefore revenue from these construction contracts should be recognised over time during the course of construction by the Group. Furthermore, the directors consider that the output method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under HKFRS 15. However, the directors are assessing whether the current accounting policy adopted by the Group in recognising the construction costs charged to profit or loss by reference to the stage of completion of the contract activity at the end of the reporting period is different from the recognition of construction costs in profit or loss based on the actual construction costs incurred under HKFRS 15’s guidance and the potential financial impact.

The directors intend to use the limited retrospective method of transition to HKFRS 15. Apart from the recognition of construction costs as explained in above and providing more extensive disclosure on the Group’s revenue transactions, the directors do not anticipate that the application of HKFRS 15 will have material effect on the Group’s financial performance and position.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

HKFRS 16 “Leases” (Cont’d)

At 31st December, 2017, the Group, as lessee, has non-cancellable operating lease commitments of HK\$117,985,000 as disclosed in note 47. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as explained in above.

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

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 (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

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

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 the 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”.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

The principal accounting policies are set out below.

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 where 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 Company 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

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

All intra-group 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 relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interest.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of the subsidiary and non-controlling interest (if any) are derecognised. 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 attributable to the owners of the Company. 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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see the accounting policy below); 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 amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. 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 equity 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 relevant subsidiary’s net assets in the event of liquidation are initially measured at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair values.

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 at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations (Cont'd)

The subsequent accounting for 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, with the corresponding gain or loss being recognised in profit or loss.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at 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 (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) 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, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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 (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

The Group's accounting policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Deposits and instalments received from customers prior to meeting the criteria below on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from sale of goods is recognised when goods are delivered and title has been passed. It is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Construction contracts

When the outcome of a construction contract 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 services provided under service concession arrangements, is recognised when services are provided.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition (Cont'd)

Others (Cont'd)

Interest income 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.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment (other than plant under construction and vessels under construction) are stated at cost less 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 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.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on 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.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less subsequent accumulated amortisation and accumulated impairment losses, if any.

Amortisation for intangible assets with finite useful lives is recognised on units of production method to reflect the expected pattern of production of the expected future economic benefits embodied in an intangible asset. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date which is regarded as 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.

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.

The results and assets and liabilities of associates and joint ventures are incorporated in the 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. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates and joint ventures (Cont'd)

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 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.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, 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. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant 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) upon disposal/partial disposal of the relevant associate or joint venture.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates and joint ventures (Cont'd)

When a group entity transacts with an associate or a joint venture of the Group, 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 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 transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of the other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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, contract costs are recognised in the consolidated statement of profit or loss by reference to the stage of completion of the contract activity at the end of the reporting period, except where this would not be representative of the stage of completion. 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.

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 under “Creditors and accrued charges”. Amounts billed, but not yet paid by the customers, for work performed on contracts are included in the consolidated statement of financial position under “Debtors, deposits and prepayments”.

Service concession arrangements

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

The Group, as an operator, recognises a financial asset as it has an unconditional contractual right to receive cash from or at the direction of the grantor for the construction services. The Group measures the financial asset at fair value on its initial recognition. At the end of the 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 above).

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 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised 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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets at FVTPL, 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.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Financial assets at FVTPL

The Group's financial assets at FVTPL 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
- on initial recognition 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 FVTPL are measured at fair value, with any gains or losses 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 excludes 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 loans to a joint venture, other financial asset, loan and other receivables, debtors, amounts due from associates, a joint venture and other partners of joint operations, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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 are measured at cost less any identified impairment losses at the end of each reporting period.

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each 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 assets, 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment loss on financial assets (Cont'd)

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 financial assets, such as trade 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 trade 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 trade debt is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

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 investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including creditors, amounts due to associates, a joint venture, other partners of joint operations and non-controlling shareholders, bank loans and bonds) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 recognised 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 dollar) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of 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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate or a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 of income or expense that are taxable or deductible in other years and 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases 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 profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group 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 they relate 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.

Retirement benefit costs

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

Share-based payment transactions

For the share options granted to the directors of the Company and the employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Impairment on tangible and intangible assets other than goodwill (see 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 with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant 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.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above) (Cont'd)

Recoverable amount is the higher of fair value less costs of disposal 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 amounts recognised in the consolidated financial statements 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

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

Determining the recoverable amount of the intangible assets with indefinite useful lives (i.e. construction licenses) arising from the acquisition of a subsidiary, which is included in the consolidated statement of financial position at 31st December, 2017 at HK\$32,858,000 (2016: HK\$32,858,000) requires an estimation of the revenue to be generated in future periods from the acquired construction licenses (see note 18). 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 activities indicate such adjustments are appropriate.

Estimated impairment of intangible assets with finite useful lives

The carrying amounts of the extraction right of rock reserve and the rehabilitation costs for the quarry site (see note 18) amounted to HK\$426,601,000 (2016: HK\$493,465,000) and HK\$21,412,000 (2016: HK\$24,768,000) respectively at 31st December, 2017. Determining whether the carrying amounts of these assets can be recovered requires an estimation of the value in use of the cash-generating units and a suitable discount rate in order to calculate the present value. Any change in estimates or assumptions may result in decrease in recoverable amount and impairment of the extraction right of rock reserve and the rehabilitation costs for the quarry site being recognised in profit or loss. At 31st December, 2017, the management considered that there was no impairment on the extraction right of rock reserve and the rehabilitation costs for the quarry site.

Estimated impairment of goodwill

Determining the recoverable amount of goodwill (see note 19) requires an estimation of the value in use of the cash-generating unit 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 unit and a suitable discount rate in order to calculate the present value. At 31st December, 2017, the carrying amount of goodwill is HK\$29,838,000 (2016: HK\$29,838,000). Details of the recoverable amount calculation are disclosed in note 20.

Estimated impairment of interest in an associate

Determining the recoverable amount of the Group's interest in Road King Infrastructure Limited ("Road King"), an associate of the Group, requires an estimation of the value in use of the investment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from dividends to be received from Road King and the proceeds on the ultimate disposal of the investment with assumptions of suitable growth rate and discount rate in order to calculate the present value. At 31st December, 2017, the carrying amount of the Group's interest in Road King is HK\$6,502,750,000 (2016: HK\$5,448,801,000). Details of the recoverable amount calculation are disclosed in note 21.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Provision for rehabilitation costs

The provision for rehabilitation costs (see note 37) is based upon the management's estimate on the costs to be incurred for the drainage, landscaping, irrigation system and slope stabilization work on the quarry site before returning the quarry site to the Government of the Hong Kong Special Administrative Region ("HKSAR") in ready-to-develop status. Where the actual future costs are substantially greater than the estimated costs, material additional rehabilitation costs may arise during the contract period ending in October 2022.

Income tax

At 31st December, 2017, no deferred tax asset has been recognised in the Group's consolidated statement of financial position in relation to unused tax losses of HK\$816,314,000 (2016: HK\$618,365,000) (see note 38) due to unpredictability of future profit streams. The realisability of the unrecognised deferred tax asset mainly depends on whether sufficient future profit or taxable temporary differences will be available in the future.

Construction contracts

The Group recognised profits and losses from construction contracts, which were derived from the latest available budgets of those construction contracts based on the overall performance of each construction contract and the management's best estimates and judgments. Estimated construction contract revenue is determined in accordance with the terms set out in the relevant contracts. Estimated construction contract 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 contract revenue and costs.

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

5. REVENUE

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------------------|--------------------------------|------------------|
| Revenue analysed by revenue from: | | |
| Construction | 5,939,251 | 4,830,843 |
| Construction materials | 524,576 | 456,848 |
| Quarrying | 36,290 | 39,421 |
| | 6,500,117 | 5,327,112 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

6. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered or services provided. This is also the basis upon which the Group is organised. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's reportable and operating segments under HKFRS 8 are summarised as follows:

Construction

- construction of civil engineering and building projects

Construction materials

- production and sale of concrete
- production, sale and laying of asphalt

Quarrying

- production and sale of quarry products

Property development and investment, toll road, investment and asset management

- strategic investment in Road King, an associate of the Group

Segment revenue and results

The following is an analysis of the segment revenue and profit (loss) for each reportable and operating segment:

Year ended 31st December, 2017

| | Segment revenue | | | Segment profit (loss) HK\$'000 |
|---|-------------------|--|----------------------|-----------------------------------|
| | Gross HK\$'000 | Inter-segment elimination HK\$'000 | External HK\$'000 | |
| Construction | 5,986,382 | (47,131) | 5,939,251 | 100,026 |
| Construction materials | 664,286 | (139,710) | 524,576 | 4,315 |
| Quarrying | 181,286 | (144,996) | 36,290 | (12,182) |
| Property development and investment, toll road, investment and asset management | – | – | – | 804,592 |
| Total | 6,831,954 | (331,837) | 6,500,117 | 896,751 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

Year ended 31st December, 2016

| | Segment revenue | | | Segment profit (loss) <i>HK\$'000</i> |
|---|--------------------------|---|-----------------------------|--|
| | Gross <i>HK\$'000</i> | Inter-segment elimination <i>HK\$'000</i> | External <i>HK\$'000</i> | |
| Construction | 4,871,491 | (40,648) | 4,830,843 | 79,437 |
| Construction materials | 615,514 | (158,666) | 456,848 | 22,261 |
| Quarrying | 185,295 | (145,874) | 39,421 | (11,094) |
| Property development and investment, toll road, investment and asset management | – | – | – | 510,636 |
| Total | 5,672,300 | (345,188) | 5,327,112 | 601,240 |

Segment profit (loss) represents profit (loss) after tax and non-controlling interests for each reportable and operating segment and includes other income, investment income, gains and losses, share of results of associates, share of results of joint ventures and other gains and losses which are attributable to reportable and operating segments, but excluding corporate income and expenses (including staff costs, other administrative expenses and finance costs), share of results of associates, share of results of joint ventures, discount on acquisition of additional interest in an associate and loss on deemed disposal of partial interest in an associate which are not attributable to any of the reportable and operating segments and are classified as unallocated items. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Reconciliation of total segment profit to profit attributable to owners of the Company

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Total segment profit | 896,751 | 601,240 |
| Unallocated items | | |
| Other income | 28,497 | 42,113 |
| Investment income, gains and losses | 222 | (12) |
| Administrative expenses | (36,482) | (26,898) |
| Finance costs | (22,050) | (24,626) |
| Share of results of associates | 29,139 | 5,099 |
| Share of results of joint ventures | 1,669 | – |
| Discount on acquisition of additional interest in an associate | 49,084 | 72,404 |
| Loss on deemed disposal of partial interest in an associate | (34,368) | – |
| Profit attributable to owners of the Company | 912,462 | 669,320 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

6. SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities

As the Group's chief operating decision maker reviews the Group's assets and liabilities on a consolidated basis, no assets or liabilities are allocated to the reportable and operating segments. Therefore, no analysis of segment assets and liabilities is presented.

Other segment information

Amounts included in the measure of segment profit (loss):

Year ended 31st December, 2017

| | Construction HK\$'000 | Construction materials HK\$'000 | Quarrying HK\$'000 | Property development and investment, toll road, investment and asset management HK\$'000 | Segment total HK\$'000 | Unallocated HK\$'000 | Intra-group elimination HK\$'000 | Total HK\$'000 |
|---|--------------------------|---------------------------------------|-----------------------|---|------------------------------|-------------------------|--|-------------------|
| Depreciation of property, plant and equipment | (9,496) | (35,178) | (558) | - | (45,232) | (1,239) | - | (46,471) |
| Amortisation of intangible assets | (1,459) | - | - | - | (1,459) | - | - | (1,459) |
| Allowance for doubtful debts reversed | - | 2,656 | - | - | 2,656 | - | - | 2,656 |
| Gain on disposal of property, plant and equipment, net | 1 | 4 | 669 | - | 674 | - | - | 674 |
| Interest income | 3,005 | 1 | 268 | - | 3,274 | 23,675 | (17,870) | 9,079 |
| Finance costs | (18,950) | (30,360) | (14,015) | - | (63,325) | (22,050) | 17,870 | (67,505) |
| Share of results of associates | 519 | - | (794) | 804,592 | 804,317 | 29,139 | - | 833,456 |
| Share of results of joint ventures | 8,299 | - | - | - | 8,299 | 1,669 | - | 9,968 |
| Income tax expense | (70,048) | - | - | - | (70,048) | - | - | (70,048) |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

6. SEGMENT INFORMATION (Cont'd)

Other segment information (Cont'd)

Year ended 31st December, 2016

| | Construction HK\$'000 | Construction materials HK\$'000 | Quarrying HK\$'000 | Property development and investment, toll road, investment and asset management HK\$'000 | Segment total HK\$'000 | Unallocated HK\$'000 | Intra-group elimination HK\$'000 | Total HK\$'000 |
|---|--------------------------|---------------------------------------|-----------------------|---|------------------------------|-------------------------|--|-------------------|
| Depreciation of property, plant and equipment | (26,125) | (26,513) | (1,746) | - | (54,384) | (1,035) | - | (55,419) |
| Amortisation of intangible assets | (1,352) | - | - | - | (1,352) | - | - | (1,352) |
| Allowance for doubtful debts recognised | - | (1,427) | - | - | (1,427) | - | - | (1,427) |
| Gain on disposal of property, plant and equipment, net | 360 | - | - | - | 360 | - | - | 360 |
| Interest income | 2,465 | - | 200 | - | 2,665 | 38,050 | (12,469) | 28,246 |
| Finance costs | (13,857) | (28,424) | (14,162) | - | (56,443) | (24,626) | 12,469 | (68,600) |
| Share of results of associates | 569 | - | 159 | 510,636 | 511,364 | 5,099 | - | 516,463 |
| Share of results of joint ventures | 7,512 | - | - | - | 7,512 | - | - | 7,512 |
| Income tax (expense) credit | (28,531) | (1,168) | 126 | - | (29,573) | - | - | (29,573) |

Geographical information

The Group's operations are mainly located in Hong Kong (country of domicile) and other regions in the People's Republic of China (the "PRC").

The Group's revenue from external customers by geographical location of the customers and information about its non-current assets (note) by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets (note) | |
|-----------|------------------------------------|------------------|------------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Hong Kong | 6,478,796 | 5,307,209 | 7,590,353 | 6,598,138 |
| The PRC | 21,321 | 19,903 | 89,643 | 78,537 |
| Others | - | - | 193,031 | 121,596 |
| | 6,500,117 | 5,327,112 | 7,873,027 | 6,798,271 |

Note: Non-current assets include all non-current assets except available-for-sale investments, other financial asset and loan and other receivables.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

6. SEGMENT INFORMATION (Cont'd)

Information about customers

Two (2016: two) customers of the construction segment located in Hong Kong individually contributing over 10% of the Group's revenue.

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|------------|--------------------------------|-------------------------|
| Customer A | 2,169,747 | 2,147,184 |
| Customer B | 1,601,714 | 1,706,405 |
| | 3,771,461 | 3,853,589 |

7. OTHER INCOME

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Other income includes: | | |
| Interest on loan and other receivables | 6,141 | 26,570 |
| Interest on bank deposits | 1,504 | 251 |
| Interest on amounts due from associates | 285 | 215 |
| Interest on other financial asset | 1,149 | 1,111 |
| Imputed interest on loan and other receivables | – | 99 |
| Government subsidy | 310 | 188 |
| Operation fee income | 26,470 | 31,115 |
| PRC Value-Added Tax refund | 1,901 | 1,873 |
| Rental income from land and buildings | 1,273 | 397 |
| Rental income from plant and machinery | 2,630 | 1,315 |
| Service income from associates | 120 | 120 |

8. INVESTMENT INCOME, GAINS AND LOSSES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Gain (loss) on change in fair value of held-for-trading investments, net | 20,829 | (1,868) |
| Dividend income from held-for-trading investments | 2,458 | 1,661 |
| | 23,287 | (207) |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

9. FINANCE COSTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------------------------|------------------|
| Interest on bank loans | 26,436 | 25,961 |
| Interest on bonds | 13,998 | 12,036 |
| Imputed interest on payable for extraction right | 24,342 | 28,023 |
| Imputed interest on provision for rehabilitation costs | 2,161 | 2,043 |
| Imputed interest on non-current interest-free amount due to an associate | 568 | 537 |
| | 67,505 | 68,600 |

10. OTHER GAINS AND LOSSES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------------------------|------------------|
| Discount on acquisition of additional interest in an associate (<i>note a</i>) | 49,084 | 72,404 |
| Loss on deemed disposal of partial interest in an associate (<i>note b</i>) | (34,368) | – |
| Gain on disposal of property, plant and equipment, net | 674 | 360 |
| | 15,390 | 72,764 |

Notes:

- (a) During the year ended 31st December, 2017, the Group purchased 7,761,000 (2016: 6,469,000) ordinary shares in Road King at an aggregate consideration of HK\$91,935,000 (2016: HK\$41,804,000) which was below the additional net assets value shared by the Group. As a result, the Group's interest in Road King increased in aggregate by 1.04% (2016: 0.87%) resulting in an aggregate discount of HK\$49,084,000 (2016: HK\$72,404,000) on acquisition of additional interest in Road King.
- (b) During the year ended 31st December, 2017, Road King issued 8,200,000 (2016: nil) ordinary shares upon exercise of share options granted to the directors and employees of Road King under the share option scheme of Road King. As a result, the Group's interest in Road King reduced in aggregate by 0.45% (2016: nil). As the shares were issued at the exercise price of HK\$7.13 per share, which was lower than the net assets value per share of Road King, the Group recorded an aggregate loss of HK\$34,368,000 (2016: nil) on deemed disposal of partial interest in Road King.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------------------------|------------------|
| Auditor's remuneration | | |
| Current year | 3,354 | 3,163 |
| Underprovision in prior year | 58 | 420 |
| | 3,412 | 3,583 |
| Allowance for doubtful debts (reversed) recognised | (2,656) | 1,427 |
| Amortisation of intangible assets | 71,679 | 33,326 |
| Less: Amount capitalised in inventories | (70,220) | (31,974) |
| | 1,459 | 1,352 |
| Depreciation of property, plant and equipment | 167,312 | 74,275 |
| Less: Amount attributable to construction contracts | (113,336) | (13,795) |
| Amount capitalised in inventories | (7,505) | (5,061) |
| | 46,471 | 55,419 |
| Exchange (gain) loss, net | (1,203) | 1,369 |
| Hire charges for plant and machinery | 144,747 | 164,409 |
| Less: Amount attributable to construction contracts | (144,747) | (164,409) |
| | - | - |
| Operating lease rentals in respect of land and buildings | 72,369 | 66,715 |
| Less: Amount attributable to construction contracts | (17,274) | (13,741) |
| | 55,095 | 52,974 |
| Share of income tax expense of associates (included in share of results of associates) | 1,227,986 | 764,363 |
| Staff costs | | |
| Directors' remuneration (<i>note 12</i>) | 30,476 | 20,983 |
| Other staff costs | 1,009,899 | 863,767 |
| Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK\$1,006,000 (2016: HK\$958,000) | 38,421 | 29,832 |
| | 1,078,796 | 914,582 |
| Less: Amount attributable to construction contracts | (814,646) | (675,694) |
| | 264,150 | 238,888 |

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For the year ended 31st December, 2017

12. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION

The remuneration paid or payable to each of the eight (2016: nine) directors included the Chief Executive Officer were as follows:

Year ended 31st December, 2017

| | Fee HK\$'000 | Salary and other benefits HK\$'000 | Performance related incentive payments HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Total HK\$'000 |
|---|-----------------|--|---|---|-------------------|
| Executive directors: | | | | | |
| Zen Wei Pao, William | - | 374 | 913 | 37 | 1,324 |
| Zen Wei Peu, Derek | - | 2,037 | 21,772 | 673 | 24,482 |
| Chiu Wai Yee, Anriena | - | 2,149 | 524 | 212 | 2,885 |
| | - | 4,560 | 23,209 | 922 | 28,691 |
| Non-executive directors: | | | | | |
| Tsang Yam Pui | 262 | - | - | - | 262 |
| Cheng Chi Ming, Brian | 262 | - | - | - | 262 |
| | 524 | - | - | - | 524 |
| Independent non-executive directors: | | | | | |
| Wong Che Ming, Steve | 410 | - | - | - | 410 |
| Wan Siu Kau, Samuel | 427 | - | - | - | 427 |
| Wong Man Chung, Francis | 424 | - | - | - | 424 |
| | 1,261 | - | - | - | 1,261 |
| | 1,785 | 4,560 | 23,209 | 922 | 30,476 |

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For the year ended 31st December, 2017

12. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (Cont'd)

Year ended 31st December, 2016

| | Fee HK\$'000 | Salary and other benefits HK\$'000 | Performance related incentive payments HK\$'000 | Retirement benefits scheme contributions HK\$'000 | Total HK\$'000 |
|---|-----------------|--|---|---|-------------------|
| Executive directors: | | | | | |
| Zen Wei Pao, William | - | 365 | 669 | 36 | 1,070 |
| Zen Wei Peu, Derek | - | 1,993 | 12,641 | 677 | 15,311 |
| Chiu Wai Yee, Anriena | - | 2,058 | 326 | 202 | 2,586 |
| | - | 4,416 | 13,636 | 915 | 18,967 |
| Non-executive directors: | | | | | |
| Tsang Yam Pui | 125 | - | - | - | 125 |
| Cheng Chi Ming, Brian | 250 | - | - | - | 250 |
| Cheng Chi Pang, Leslie (<i>note</i>) | 418 | - | - | - | 418 |
| | 793 | - | - | - | 793 |
| Independent non-executive directors: | | | | | |
| Wong Che Ming, Steve | 397 | - | - | - | 397 |
| Wan Siu Kau, Samuel | 414 | - | - | - | 414 |
| Wong Man Chung, Francis | 412 | - | - | - | 412 |
| | 1,223 | - | - | - | 1,223 |
| | 2,016 | 4,416 | 13,636 | 915 | 20,983 |

Note: Dr. Cheng Chi Pang, Leslie retired as a non-executive director of the Company on 19th May, 2016. The amount included HK\$168,000 director's fee of Build King.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

12. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S REMUNERATION (Cont'd)

Mr. Zen Wei Peu, Derek is the Vice Chairman and the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

The executive directors' emoluments shown above were 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 for their services as directors of the Company and one director of Build King.

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

The performance related incentive payment is determined by reference to the profit of the Group or individual performance of the directors for the year.

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

13. EMPLOYEES' EMOLUMENTS

Details of the emoluments of the five highest paid individuals included one director (2016: one director) set out in note 12. The emoluments of the remaining four (2016: four) highest paid individuals are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Salary and other benefits | 12,810 | 12,363 |
| Retirement benefits scheme contributions | 949 | 792 |
| | 13,759 | 13,155 |

The emoluments were within the following bands:

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2017 | 2016 |
| HK\$3,000,001 to HK\$3,500,000 | 3 | 3 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | 1 |

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For the year ended 31st December, 2017

14. INCOME TAX EXPENSE

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|-------------------------------|-------------------------|-------------------------|
| Current tax | | |
| Hong Kong | 60,197 | 24,676 |
| The PRC | 2,045 | 1,644 |
| | 62,242 | 26,320 |
| Underprovision in prior years | | |
| Hong Kong | 7,564 | 1,839 |
| The PRC | 242 | 1,414 |
| | 7,806 | 3,253 |
| | 70,048 | 29,573 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the PRC subsidiaries is 25% for both years.

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Profit before tax | 1,064,337 | 763,986 |
| Income tax expense at the applicable rate of 16.5% (2016: 16.5%) | 175,615 | 126,058 |
| Tax effect of expenses not deductible for tax purpose | 21,972 | 26,141 |
| Tax effect of income not taxable for tax purpose | (21,537) | (33,740) |
| Underprovision in prior years | 7,806 | 3,253 |
| Tax effect of tax losses not recognised | 80,577 | 46,018 |
| Tax effect of utilisation of tax losses previously not recognised | (47,915) | (45,219) |
| Tax effect of share of results of associates | (137,520) | (85,216) |
| Tax effect of share of results of joint ventures | (1,645) | (1,239) |
| Effect of different rates for subsidiaries operating in other jurisdictions | 568 | 634 |
| Others | (7,873) | (7,117) |
| Income tax expense | 70,048 | 29,573 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

15. DIVIDENDS

Dividends paid and recognised as distributions during the year:

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| 2016 final dividend - HK16.5 cents per share (2016: 2015 final dividend - HK9.5 cents per share) | 130,865 | 75,347 |
| 2017 interim dividend - HK3.8 cents per share (2016: 2016 interim dividend - HK3.3 cents per share) | 30,139 | 26,173 |
| | 161,004 | 101,520 |

A final dividend for the year ended 31st December, 2017 of HK22.5 cents (2016: HK16.5 cents) per ordinary share amounting to HK\$178,453,000 (2016: HK\$130,865,000) has been proposed by the board of directors of the Company (the "Board") and is subject to approval by the shareholders in the forthcoming annual general meeting. This final dividend has not been included as a liability in the consolidated financial statements.

16. EARNINGS PER SHARE

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

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company) | 912,462 | 669,320 |
| Effect of dilutive potential ordinary shares: | | |
| Decrease in share of profit of an associate arising from assumed exercise of share options issued by that associate (<i>note</i>) | (1,124) | – |
| Earnings for the purpose of diluted earnings per share | 911,338 | 669,320 |
| | 2017 | 2016 |
| Number of ordinary shares for the purposes of basic and diluted earnings per share | 793,124,034 | 793,124,034 |

Note: The computation of diluted earnings per share for the year ended 31st December, 2016 did not assume the exercise of the outstanding share options of that associate as the exercise price of the share options was higher than the average market price of the shares of that associate during that year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

17. PROPERTY, PLANT AND EQUIPMENT

| | Plant under construction HK\$'000 | Vessels under construction HK\$'000 | Buildings HK\$'000 | 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 |
|------------------------------------|---|--|-----------------------|---------------------------------------|------------------------------------|---|-------------------------------|---------------------|-------------------|
| COSTS | | | | | | | | | |
| At 1st January, 2016 | 66,604 | - | 12,746 | 10,122 | 408,414 | 42,286 | 75,560 | 80,562 | 696,294 |
| Exchange realignment | - | - | - | - | - | (44) | (36) | - | (80) |
| Additions | 65,277 | 178,140 | - | 3,376 | 45,101 | 4,769 | 16,303 | 1,665 | 314,631 |
| Transfers | (94,927) | - | - | 461 | 94,083 | 383 | - | - | - |
| Disposals | - | - | - | (2,444) | (36,124) | (18) | (367) | - | (38,953) |
| At 31st December, 2016 | 36,954 | 178,140 | 12,746 | 11,515 | 511,474 | 47,376 | 91,460 | 82,227 | 971,892 |
| Exchange realignment | - | - | - | - | - | 59 | 50 | - | 109 |
| Additions | 5,998 | 116,295 | - | 2,206 | 16,494 | 2,327 | 1,872 | 9,139 | 154,331 |
| Transfers | (42,952) | (294,435) | - | - | 42,089 | 863 | - | 294,435 | - |
| Disposals | - | - | - | (304) | (28,454) | (2,261) | (375) | - | (31,394) |
| At 31st December, 2017 | - | - | 12,746 | 13,417 | 541,603 | 48,364 | 93,007 | 385,801 | 1,094,938 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | | |
| At 1st January, 2016 | - | - | 4,593 | 8,306 | 228,169 | 36,421 | 39,332 | 59,829 | 376,650 |
| Exchange realignment | - | - | - | - | - | (40) | (17) | - | (57) |
| Provided for the year | - | - | 1,307 | 2,202 | 48,587 | 3,134 | 12,956 | 6,089 | 74,275 |
| Eliminated on disposals | - | - | - | (2,444) | (34,999) | (6) | (316) | - | (37,765) |
| At 31st December, 2016 | - | - | 5,900 | 8,064 | 241,757 | 39,509 | 51,955 | 65,918 | 413,103 |
| Exchange realignment | - | - | - | - | - | 54 | 30 | - | 84 |
| Provided for the year | - | - | 1,293 | 2,627 | 60,904 | 3,853 | 10,714 | 87,921 | 167,312 |
| Eliminated on disposals | - | - | - | (304) | (27,440) | (2,075) | (375) | - | (30,194) |
| At 31st December, 2017 | - | - | 7,193 | 10,387 | 275,221 | 41,341 | 62,324 | 153,839 | 550,305 |
| CARRYING VALUES | | | | | | | | | |
| At 31st December, 2017 | - | - | 5,553 | 3,030 | 266,382 | 7,023 | 30,683 | 231,962 | 544,633 |
| At 31st December, 2016 | 36,954 | 178,140 | 6,846 | 3,451 | 269,717 | 7,867 | 39,505 | 16,309 | 558,789 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

17. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

| | |
|-----------------------------------|---|
| Buildings | Over the shorter of the terms of the relevant leases or 20 – 30 years |
| Leasehold improvements | 33 $\frac{1}{3}$ % or over the terms of the relevant leases, whichever is shorter |
| Plant and machinery | Over 11 months to 10 years |
| Furniture, fixtures and equipment | 25% |
| Motor vehicles | 16 $\frac{2}{3}$ % – 25% |
| Vessels | 10% – 50% |

The buildings are located in Hong Kong and the PRC.

At 31st December, 2017, the Group has pledged certain vessels with an aggregate carrying value of HK\$139,787,000 (2016: nil) to secure a bank loan.

At 31st December, 2016, the Group had pledged certain motor vehicles with an aggregate carrying value of HK\$3,387,000 to secure a bank loan. The respective bank loan has been fully repaid and the pledge has been released during the year ended 31st December, 2017.

18. INTANGIBLE ASSETS

| | Construction licenses HK\$'000 (note a) | Extraction right of rock reserve HK\$'000 (note b) | Rehabilitation costs for quarry site HK\$'000 (note b) | Service concession arrangement HK\$'000 (note c) | Total HK\$'000 |
|-------------------------------|--|--|--|--|-------------------|
| COSTS | | | | | |
| At 1st January, 2016 | 32,858 | 535,728 | 26,889 | 39,361 | 634,836 |
| Exchange realignment | - | - | - | (2,169) | (2,169) |
| At 31st December, 2016 | 32,858 | 535,728 | 26,889 | 37,192 | 632,667 |
| Exchange realignment | - | - | - | 2,933 | 2,933 |
| At 31st December, 2017 | 32,858 | 535,728 | 26,889 | 40,125 | 635,600 |
| AMORTISATION | | | | | |
| At 1st January, 2016 | - | 11,817 | 593 | 7,077 | 19,487 |
| Exchange realignment | - | - | - | (390) | (390) |
| Charge for the year | - | 30,446 | 1,528 | 1,352 | 33,326 |
| At 31st December, 2016 | - | 42,263 | 2,121 | 8,039 | 52,423 |
| Exchange realignment | - | - | - | 634 | 634 |
| Charge for the year | - | 66,864 | 3,356 | 1,459 | 71,679 |
| At 31st December, 2017 | - | 109,127 | 5,477 | 10,132 | 124,736 |
| CARRYING VALUES | | | | | |
| At 31st December, 2017 | 32,858 | 426,601 | 21,412 | 29,993 | 510,864 |
| At 31st December, 2016 | 32,858 | 493,465 | 24,768 | 29,153 | 580,244 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

18. INTANGIBLE ASSETS (Cont'd)

Notes:

- (a) The amount represents the fair value of the construction licenses (with indefinite useful lives) held by Build King Construction Limited ("BKCL") acquired by the Group in 2005 (the "Acquired Subsidiary").

The construction licenses are granted by the Works Branch, Development Bureau of HKSAR to the Acquired Subsidiary through which the Acquired Subsidiary is eligible to undertake government construction contracts of all five categories of public works, namely port works, site formation, road and drainage, water works and buildings with no limitation in contract sum. The construction 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 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 indefinite useful lives because they are expected to contribute net cash inflow indefinitely. The construction licenses will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Details regarding the impairment testing on construction licenses are disclosed in note 20.

- (b) The amounts represent the carrying amounts of the extraction right of rock reserve and the rehabilitation costs to be incurred in a quarry site in Hong Kong acquired by Faith Oriental Investment Limited ("Faith Oriental"), a wholly owned subsidiary of the Company, under the contract entered into with the Government of HKSAR during the year ended 31st December, 2015.

Pursuant to the contract, Faith Oriental has to pay to the Government of HKSAR, grantor of the extraction right of rock reserve in the quarry site, a total consideration of HK\$653,888,000 by 14 equal semi-annual instalments with the first instalment paid in April 2016 and to complete the rehabilitation work before the expiry of the contract period in October 2022. The carrying amounts of the extraction right of rock reserve and the rehabilitation costs for quarry site are the present value of the total consideration discounted at the rate of 5.63% per annum throughout the contract period less accumulated amortisation and the present value of estimated total cost to be incurred for rehabilitation work in the quarry site discounted at the rate of 7.60% per annum throughout the contract period less accumulated amortisation respectively.

Amortisation is calculated by applying the ratio of actual extracted volume of rock compared to the total estimated volume of rock reserve over the remaining contract period to the carrying amounts of the assets.

The management of the Group have performed impairment assessment on the extraction right of rock reserve and the rehabilitation costs for quarry site at 31st December, 2017 by reference to the valuation prepared by an independent external valuer. For the purpose of impairment assessment, assets have been allocated to individual cash generating units ("CGUs") included in quarrying and construction materials segments and the recoverable amount of the CGUs has been determined based on the value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering the contract period of the extraction right and a discount rate of 10.41%. Other key assumptions for the value in use calculations relate to the estimation of the prices of quarry products, concrete and asphalt, extracted rock reserves and budgeted gross margin. The management considered that there was no impairment on the extraction right of rock reserve and the rehabilitation costs for quarry site.

- (c) Wuxi Qianhui Sewage Treatment Co., Ltd. ("Wuxi Qianhui"), a subsidiary of the Company 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 25 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 contract, 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 an intangible asset. The Group estimates the fair value of the intangible asset to be equal to the construction costs plus certain margin. Amortisation of the intangible asset will be provided for over the operation period of 30 years on a straight-line basis when the sewage treatment plant phase II commences its operation.

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18. INTANGIBLE ASSETS (Cont'd)

Notes: (Cont'd)

(c) (Cont'd)

The first stage of 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 had been further developed in second stage pursuant to the service concession arrangement contracts which included purchase and installation of sewage treatment equipment and various construction works and which had been put into operation in 2013.

19. GOODWILL

The amount represents goodwill arising on the reverse acquisition of Build King and its subsidiaries in 2004. Particulars regarding the impairment testing on goodwill are disclosed in note 20.

20. 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 Build King and its subsidiaries in 2004 as set out in note 19, goodwill has been allocated to the group of underlying CGUs which represents Build King and its subsidiaries in existence at the time of reverse acquisition of Build King and its subsidiaries in 2004 and is included in construction segment.

For the purpose of impairment testing, intangible assets with indefinite useful lives as set out in note 18(a) have been allocated to a CGU, a subsidiary acquired in 2005, which is included in construction segment and holds the construction licenses granted by the Works Branch, Development Bureau of HKSAR and through which it is eligible to undertake government construction contracts for all five categories of public works with no limitation in contract sum.

The recoverable amounts of the above groups of CGUs have been determined on the basis of value in use calculations and 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, a discount rate of 10% (2016: 10%) and a growth rate of 0% (2016: 0%). 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.

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 with indefinite useful lives.

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Cost of investments in associates | | |
| Listed in Hong Kong (<i>note a</i>) | 1,770,668 | 1,678,733 |
| Unlisted | 53,954 | 120,327 |
| | 1,824,622 | 1,799,060 |
| Share of post-acquisition profits, losses and other comprehensive income, net of dividends received | 4,715,092 | 3,754,294 |
| | 6,539,714 | 5,553,354 |
| Represented by: | | |
| Interests in associates | 6,556,960 | 5,569,562 |
| Obligations in excess of interests in associates (<i>note b</i>) | (17,246) | (16,208) |
| | 6,539,714 | 5,553,354 |
| Fair value of listed investments | 4,189,522 | 1,951,542 |

Notes:

- (a) Included in the cost of investment in the associate listed in Hong Kong, there is goodwill of HK\$30,964,000 (2016: HK\$30,964,000) arising on acquisition of additional interest in the associate during the year ended 31st December, 2007.
- (b) The Group has contractual obligations to share the net liabilities of certain associates.

Notes to the Consolidated Financial Statements

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21. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's principal associates at 31st December, 2017 and 2016 are as follows:

| Name of associate | Form of business structure | Place of incorporation/operation | Effective interest held by the Company | | Proportion of voting rights held by the Group | | Principal activities |
|--|----------------------------|----------------------------------|--|--------------------------|---|-----------|--|
| | | | 2017 % | 2016 % | 2017 % | 2016 % | |
| Brilliant Trade Holdings Limited | Incorporated | Hong Kong | 40 | 40 | 40 | 40 | Transportation |
| Elite International Investment Fund I LP | Incorporated | Cayman Islands | 30 | 30 | 30 | 30 | Investment in property development in the United States of America (the "USA") |
| Grand China Cayman Investors III, Limited | Incorporated | Cayman Islands | 34.6 | 34.6 | 34.6 | 34.6 | Investment in rental properties in the USA |
| Hong Kong Landfill Restoration Group Limited | Incorporated | Hong Kong | 19.18 <i>(note a)</i> | 18.21 <i>(note a)</i> | 34.5 | 34.5 | Civil engineering |
| Road King Infrastructure Limited <i>(note b)</i> | Incorporated | Bermuda | 41.54 | 40.95 | 41.54 | 40.95 | Property development, development, operation and management of toll roads, and investment and asset management |
| Genetron Engineering Company Limited <i>(note c)</i> | Incorporated | Hong Kong | 16.68 <i>(note a)</i> | - | 30 | - | Civil engineering |

Notes:

- (a) The Company holds the effective interest in the associate through Build King.
- (b) The shares of Road King are listed on the Main Board of the Stock Exchange.
- (c) In July 2017, Build King acquired 30% equity interest in Genetron Engineering Company Limited ("Genetron Engineering") from certain independent third parties at a cash consideration of HK\$8,526,000. Genetron Engineering is a limited liability company incorporated in Hong Kong and engaged in civil engineering.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

21. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Cont'd)

At 31st December, 2017, the carrying amount of the Group's interest in Road King of HK\$6,502,750,000 (2016: HK\$5,448,801,000) was higher than its fair value of HK\$4,189,522,000 (2016: HK\$1,951,542,000). The management of the Group carried out impairment review on the entire carrying amount of its interest in Road King (including goodwill) as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its entire carrying amount. In determining the value in use of the investment, the Group estimated the present value of the estimated future cash flows expected to arise from dividends to be received from Road King and the proceeds on the ultimate disposal of the investment. The key assumptions included growth rate and use of 10% (2016: 10%) to discount the cash flow projections to net present values. Based on the assessment, the recoverable amount of the Group's interest in Road King exceeded its entire carrying amount. Hence, no impairment against the Group's interest in Road King is considered necessary.

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate, Road King, 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 the Group's consolidated financial statements.

Road King is engaged in property development, development, operation and management of toll roads, and investment and asset management.

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Current assets | 50,243,874 | 41,048,193 |
| Non-current assets | 19,491,584 | 9,351,938 |
| Current liabilities | (31,518,225) | (23,710,747) |
| Non-current liabilities | (16,602,807) | (12,456,756) |
| Net assets | 21,614,426 | 14,232,628 |
| Equity attributable to owners of the company | 15,635,078 | 13,291,831 |
| Perpetual capital securities | 4,633,096 | – |
| Non-controlling interests | 1,346,252 | 940,797 |
| Total equity | 21,614,426 | 14,232,628 |
| The above amounts of assets and liabilities include the following: | | |
| Cash and cash equivalents | 7,926,458 | 7,290,782 |
| Current financial liabilities (excluding trade and other payables and provisions) | (5,354,054) | (6,769,198) |
| Non-current financial liabilities (excluding trade and other payables and provisions) | (15,818,724) | (11,807,451) |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

21. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Cont'd)

Summarised financial information of material associate (Cont'd)

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Revenue | 14,755,770 | 16,841,585 |
| Profit for the year | 2,475,994 | 1,373,596 |
| Other comprehensive income (expense) for the year | 916,692 | (821,133) |
| Total comprehensive income for the year | 3,392,686 | 552,463 |
| Dividends received from the associate by the Group during the year | 212,859 | 144,277 |
| The above profit for the year includes the following income (expenses): | | |
| Interest income | 379,747 | 150,114 |
| Depreciation | (13,524) | (14,305) |
| Finance costs | (363,367) | (371,585) |
| Income tax expense | (2,965,394) | (1,871,696) |

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net assets attributable to owners of the associate | 15,635,078 | 13,291,831 |
| Proportion of the Group's ownership interest in the associate | 41.54% | 40.95% |
| Goodwill | 6,494,811 | 5,443,005 |
| Others | 30,964 | 30,964 |
| | (23,025) | (25,168) |
| Carrying amount of the Group's interest in the associate | 6,502,750 | 5,448,801 |

Aggregate information of associates that are not individually material

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| The Group's share of profit and total comprehensive income | 28,864 | 5,827 |

There is no unrecognised share of losses of associates for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

22. INTERESTS IN JOINT VENTURES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------------------------|------------------|
| Cost of investment in unlisted joint ventures | 186,036 | 40,956 |
| Loans to a joint venture (note) | 25,597 | 10,050 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | 17,480 | 7,512 |
| | 229,113 | 58,518 |

Note: The loans to a joint venture are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the loans are considered as part of the Group's interest in the joint venture.

Details of the Group's joint ventures at 31st December, 2017 and 2016 are as follows:

| Name of joint venture | Form of business structure | Place of incorporation/operation | Effective interest held by the Company | | Proportion of voting rights held by the Group | | Principal activities |
|--|----------------------------|----------------------------------|--|--------------------------|---|-----------|--|
| | | | 2017 % | 2016 % | 2017 % | 2016 % | |
| Hip Hing-Leader JV Limited | Incorporated | Hong Kong | 18.51 <i>(note a)</i> | 17.58 <i>(note a)</i> | 33.3 | 33.3 | Civil engineering |
| Sunny Harvest Corporation Limited ("Sunny Harvest") <i>(note b)</i> | Incorporated | Hong Kong | 27.80 <i>(note a)</i> | 26.39 <i>(note a)</i> | 50 | 50 | Provision of transportation services |
| 德州恒源熱力有限公司 ("Dezhou Heng Yuan") <i>(note c)</i> | Incorporated | PRC | 27.24 <i>(note a)</i> | 25.86 <i>(note a)</i> | 50 | 50 | Central heating |
| Wisdom H6 LLC <i>(note d)</i> | Incorporated | USA | 65.01 | - | 66.7 | - | Investment in rental properties in the USA |
| Estates at Fountain Lake LLC <i>(note e)</i> | Incorporated | USA | 29.77 | - | 33.3 | - | Investment in rental properties in the USA |

Notes:

- (a) The Company holds the effective interest in the joint venture through Build King. Under the joint venture agreement, the entity is jointly controlled by Build King and the other joint venture partner. Therefore, the entity is classified as a joint venture.
- (b) In 2016, Build King acquired a total of 50% equity interest in Sunny Harvest from an independent third party at a total consideration of HK\$50. Sunny Harvest is a limited liability company incorporated in Hong Kong and is engaged in the provision of transportation services. In 2016, Build King provided shareholder's loan of HK\$10,050,000 to Sunny Harvest. In 2017, Build King has further provided shareholder's loans of HK\$13,547,000 and HK\$2,000,000 to Sunny Harvest.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

22. INTERESTS IN JOINT VENTURES (Cont'd)

Notes: (Cont'd)

- (c) In 2016, Build King acquired 49% equity interest in Dezhou Heng Yuan at a consideration of RMB34,710,000 (approximately HK\$40,956,000). Dezhou Heng Yuan is a limited liability company incorporated in the PRC and was granted an exclusive right to supply heat to the west of Jianhe in Dezhou Economic Development Zone.
- (d) On 30th September, 2017, Prosperous Power US LLC ("Prosperous Power"), a wholly owned subsidiary of Lion Trade Global Limited ("Lion Trade"), which in turn is owned indirectly as to 70% by a wholly owned subsidiary of the Company and 30% by a wholly owned subsidiary of Build King, entered into an operating agreement with independent third parties in relation to the management of Wisdom H6 LLC. As a result, Prosperous Power holds 75% equity interest in Wisdom H6 LLC. Wisdom H6 LLC is a limited liability company incorporated in the USA and is engaged in the investment in rental properties in the USA.
- (e) On 13th December, 2017, Prosperous Power entered into an operating agreement with an independent third party in relation to the management of Estates at Fountain Lake LLC. As a result, Prosperous Power holds 34.35% equity interest in Estates at Fountain Lake LLC. Estates at Fountain Lake LLC is a limited liability company incorporated in the USA and is engaged in the investment in rental properties in the USA.

Summarised financial information of material joint ventures

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

All joint ventures are accounted for using the equity method in the Group's consolidated financial statements.

Dezhou Heng Yuan

Dezhou Heng Yuan is engaged in central heating.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Current assets | 65,512 | 64,636 |
| Non-current assets | 140,945 | 142,555 |
| Current liabilities | (41,242) | (58,686) |
| Non-current liabilities | (44,077) | (49,515) |
| Net assets | 121,138 | 98,990 |
| Revenue | 54,243 | 31,666 |
| Profit for the year | 21,545 | 15,406 |
| Total comprehensive income for the year | 21,545 | 15,406 |

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22. INTERESTS IN JOINT VENTURES (Cont'd)

Summarised financial information of material joint ventures (Cont'd)

Dezhou Heng Yuan (Cont'd)

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

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Net assets of the joint venture | 121,138 | 98,990 |
| Proportion of the ownership interest in the joint venture held by Build King | 49% | 49% |
| Carrying amount of the Group's interest in the joint venture | 59,358 | 48,505 |

Wisdom H6 LLC

Wisdom H6 LLC is engaged in investment in rental properties in the USA.

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Current assets | 24,146 | – |
| Non-current assets | 334,923 | – |
| Current liabilities | (9,407) | – |
| Non-current liabilities | (200,831) | – |
| Net assets | 148,831 | – |
| Revenue | 7,449 | – |
| Profit for the year | 2,191 | – |
| Total comprehensive income for the year | 2,191 | – |

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

| | 2017 HK\$'000 | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Net assets of the joint venture | 148,831 | – |
| Proportion of the ownership interest in the joint venture held by the Group | 75% | – |
| Carrying amount of the Group's interest in the joint venture | 111,623 | – |

The financial information of the other joint ventures is immaterial.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

23. JOINT OPERATIONS

Details of the Group's principal joint operations at 31st December, 2017 and 2016 are as follows:

| Name of joint operation | Form of business structure | Place of registration/ operation | Effective interest held by the Company | | Principal activities |
|---|----------------------------|----------------------------------|--|------------------------|----------------------|
| | | | 2017 % | 2016 % | |
| ACC-Leader Joint Venture | Unincorporated | Middle East | 27.8 <i>(note)</i> | 26.39 <i>(note)</i> | Civil engineering |
| Build King-Richwell Engineering Joint Venture | Unincorporated | Hong Kong | 33.36 <i>(note)</i> | – | Civil engineering |
| China State-Build King Joint Venture | Unincorporated | Hong Kong | 27.24 <i>(note)</i> | 25.86 <i>(note)</i> | Civil engineering |
| Chun Wo-Leader Joint Venture | Unincorporated | Hong Kong | 28.36 <i>(note)</i> | 26.92 <i>(note)</i> | Civil engineering |
| CRBC-Build King Joint Venture | Unincorporated | Hong Kong | 27.24 <i>(note)</i> | 25.86 <i>(note)</i> | Civil engineering |
| CRBC-CEC-Kaden Joint Venture | Unincorporated | Hong Kong | 18.07 <i>(note)</i> | 17.15 <i>(note)</i> | Civil engineering |
| CRBC-Kaden Joint Venture | Unincorporated | Hong Kong | 33.36 <i>(note)</i> | 31.67 <i>(note)</i> | Civil engineering |
| Gammon-Kaden SCL 1111 Joint Venture | Unincorporated | Hong Kong | 16.68 <i>(note)</i> | 15.83 <i>(note)</i> | Civil engineering |
| Hsin Chong-Build King Joint Venture | Unincorporated | Hong Kong | 19.46 <i>(note)</i> | 18.47 <i>(note)</i> | Civil engineering |
| Kaden-Chun Wo Joint Venture | Unincorporated | Hong Kong | 28.36 <i>(note)</i> | 26.92 <i>(note)</i> | Civil engineering |
| Kier-Kaden-OSSA Joint Venture | Unincorporated | Hong Kong | 19.46 <i>(note)</i> | 18.47 <i>(note)</i> | Civil engineering |
| Kier-Laing O'Rourke-Kaden Joint Venture | Unincorporated | Hong Kong | 8.34 <i>(note)</i> | 7.92 <i>(note)</i> | Civil engineering |
| Leader Marine-Yoon & Plac Joint Venture | Unincorporated | Hong Kong | 27.8 <i>(note)</i> | 26.39 <i>(note)</i> | Civil engineering |
| Samsung-Build King Joint Venture | Unincorporated | Hong Kong | 16.68 <i>(note)</i> | 15.83 <i>(note)</i> | Civil engineering |

Note: The Company holds the effective interest in the joint operation through Build King. Under the joint arrangement agreement, the entity is jointly controlled by Build King and the other partners of the joint arrangement. Therefore, the entity is classified as a joint operation.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

23. JOINT OPERATIONS (Cont'd)

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 net assets of the Group. To give details of other joint operations would, in the opinion of the directors, result in particulars of excessive length.

24. AVAILABLE-FOR-SALE INVESTMENTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------------------------|--------------------------------|------------------|
| Unlisted equity securities, at cost | 63,112 | 110,015 |
| Less: Impairment loss recognised | - | (800) |
| | 63,112 | 109,215 |

The unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the Cayman Islands and the USA. The unlisted investments are measured at cost less impairment loss at the end of the reporting period.

25. 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 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.

At the end of the operating period, Wuxi Qianhui is required to transfer the sewage treatment plant phase I 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 in 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 ton of sewage. The agreed price will be reviewed annually. Therefore, the service concession arrangement is classified as financial asset. 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% (2016: 2.61%) per annum and recoverable over the service concession period of 30 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

26. LOAN AND OTHER RECEIVABLES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Amounts due from: | | |
| An investee (note a) | – | 109,176 |
| An independent third party (note b) | – | 22,226 |
| | – | 131,402 |
| Less: Amount shown under current assets (note 29) | – | (23,144) |
| Amount shown under non-current assets | – | 108,258 |

Notes:

- (a) At 31st December, 2016, the shareholder's loan of US\$13,911,000 (equivalent to HK\$108,258,000) was expected by the management to be settled after twelve months from the end of the reporting period was shown under non-current assets and the interest receivable of US\$118,000 (equivalent to HK\$918,000) to be settled within twelve months from the end of the reporting period was shown under current assets and included in "Debtors, deposits and prepayments" as disclosed in note 29. The loan was bearing variable interest rate of London Interbank Offered Rate plus 9% per annum. All the outstanding balance of the shareholder's loan was early repaid in 2017.
- (b) At 31st December, 2016, the amount represented a loan advanced to an independent third party by 惠記環保工程(上海)有限公司, a wholly owned subsidiary of Build King. The loan was secured by 51% equity interest in a PRC company, bearing fixed interest rate at 4.5% per annum and was fully repaid in 2017. At 31st December, 2016, the amount was shown under current assets and included in "Debtors, deposits and prepayments" as disclosed in note 29.

27. INVENTORIES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------|------------------|------------------|
| Raw materials | 45,364 | 46,517 |
| Consumables | 7,828 | 8,191 |
| Finished goods | 3,694 | 8,294 |
| | 56,886 | 63,002 |

The cost of inventories recognised as an expense during the year is HK\$546,196,000 (2016: HK\$378,041,000).

Notes to the Consolidated Financial Statements

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

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Contracts in progress at the end of the reporting period: | | |
| Contract costs incurred plus recognised profits less recognised losses | 28,309,592 | 21,789,723 |
| <i>Less:</i> Progress billings | (28,466,202) | (22,103,167) |
| | (156,610) | (313,444) |
| Represented by: | | |
| Due from customers shown under current assets | 253,443 | 324,351 |
| Due to customers shown under current liabilities | (410,053) | (637,795) |
| | (156,610) | (313,444) |

29. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Trade debtors | 1,274,731 | 925,202 |
| <i>Less:</i> Allowance for doubtful debts | (1,930) | (5,495) |
| | 1,272,801 | 919,707 |
| Bills receivables | 2,130 | 11,013 |
| Retention receivables | 454,921 | 331,752 |
| Other debtors | 105,094 | 71,009 |
| Deposits and prepayments | 89,971 | 106,779 |
| Loan and other receivables (<i>note 26</i>) | - | 23,144 |
| | 1,924,917 | 1,463,404 |

The Group's other debtors and loan and other receivables included an aggregate carrying amount of HK\$7,000 (2016: HK\$22,405,000) which is denominated in Renminbi that is the currency other than the functional currencies of the relevant group entities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

29. DEBTORS, DEPOSITS AND PREPAYMENTS (Cont'd)

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 works. The following is an aged analysis of trade debtors (net of allowance for doubtful debts) presented based on the invoice date and retention receivables presented based on the due date:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------|--------------------------------|------------------|
| Trade debtors | | |
| 0 to 60 days | 1,251,686 | 898,596 |
| 61 to 90 days | 3,953 | 2,780 |
| Over 90 days | 17,162 | 18,331 |
| | 1,272,801 | 919,707 |
| Retention receivables | | |
| Due within one year | 129,691 | 61,618 |
| Due after one year | 325,230 | 270,134 |
| | 454,921 | 331,752 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limit by customer. Limits and scores attributed to customers are reviewed periodically. At 31st December, 2017, 98% (2016: 97%) of the trade debtors that are neither past due nor impaired have good settlement history. The Group has assessed the creditworthiness and historical default rates of these customers. Trade debtors that are past due but not impaired have the good quality with reference to respective settlement history.

In determining the recoverability of a trade debt, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to major customer of the Group is the Government of HKSAR. Accordingly, the directors of the Company believe that there is no further provision required.

At 31st December, 2017, the Group's trade debtors and retention receivables included amounts of HK\$24,940,000 (2016: HK\$20,395,000) and HK\$25,597,000 (2016: HK\$14,566,000) respectively due from related companies which are subsidiaries of a substantial shareholder of the Company.

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29. DEBTORS, DEPOSITS AND PREPAYMENTS (Cont'd)

The Group's trade debtors included a carrying amount of HK\$21,115,000 (2016: HK\$21,111,000) which is past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been any significant change in credit quality and the amounts are still considered recoverable in full. The Group does not hold any collateral over these receivables.

Aging of trade debtors past due but not impaired

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------|------------------|------------------|
| Overdue by: | | |
| 1 to 30 days | 3,953 | 2,780 |
| Over 30 days | 17,162 | 18,331 |
| | 21,115 | 21,111 |

Included in the allowance for doubtful debts are individually impaired receivables due from certain trade debtors with an aggregate amount of HK\$1,930,000 (2016: HK\$5,495,000) which have either been placed under liquidation, are in financial difficulties or are past due beyond 120 days and estimated to be irrecoverable. The Group does not hold any collateral over these receivables.

Movement in the allowance for doubtful debts

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Balance at the beginning of the year | 5,495 | 6,136 |
| Written off against trade debtors | (909) | (2,068) |
| Allowance (reversed) recognised in profit or loss | (2,656) | 1,427 |
| Balance at the end of the year | 1,930 | 5,495 |

30. AMOUNTS DUE FROM ASSOCIATES/A JOINT VENTURE/OTHER PARTNERS OF JOINT OPERATIONS

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

31. HELD-FOR-TRADING INVESTMENTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Equity securities listed in Hong Kong, at fair value | 46,391 | 25,562 |

Notes to the Consolidated Financial Statements

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32. PLEDGED BANK DEPOSITS AND BANK BALANCES

Bank deposits of the Group amounting to HK\$37,000 (2016: HK\$101,000) were pledged to banks for securing certain banking facilities granted to the Group. The pledged bank deposits carry fixed interest rate at 0.01% (2016: 0.01%) per annum.

Bank balances with original maturity less than three months carry market interest rate ranging from 0.00% to 1.81% (2016: 0.00% to 0.35%) per annum.

The Group's bank balances included carrying amounts of HK\$3,575,000 (2016: HK\$6,719,000) and HK\$193,209,000 (2016: HK\$3,000) which are denominated in Renminbi and United States dollar respectively that are the currencies other than the functional currencies of the relevant group entities.

33. CREDITORS AND ACCRUED CHARGES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|--------------------------------|------------------|
| Trade creditors (aged analysis based on the invoice date): | | |
| 0 to 60 days | 290,940 | 202,181 |
| 61 to 90 days | 15,780 | 20,353 |
| Over 90 days | 40,588 | 9,583 |
| | 347,308 | 232,117 |
| Retention payables | 365,023 | 306,376 |
| Accrued project costs | 1,376,388 | 835,951 |
| Payable for extraction right (<i>note 36</i>) | 72,960 | 90,830 |
| Other creditors and accrued charges | 122,862 | 123,312 |
| | 2,284,541 | 1,588,586 |
| Retention payables | | |
| Due within one year | 124,257 | 89,769 |
| Due after one year | 240,766 | 216,607 |
| | 365,023 | 306,376 |

The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe. For retention payables in respect of construction contracts, the due dates are usually one year after the completion of the construction works.

The Group's trade and other creditors included an aggregate carrying amount of HK\$4,000 (2016: HK\$1,655,000) which is denominated in Renminbi that is the currency other than the functional currencies of the relevant group entities.

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34. AMOUNTS DUE TO ASSOCIATES/A JOINT VENTURE/OTHER PARTNERS OF JOINT OPERATIONS/NON-CONTROLLING SHAREHOLDERS

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

35. BANK LOANS

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| The maturity of the bank loans is as follows: | | |
| Within one year | 300,819 | 215,434 |
| In the second year | 336,600 | 143,000 |
| In the third to fifth year inclusive | 167,750 | 340,250 |
| | 805,169 | 698,684 |
| Carrying amount of term loans which contain a repayment on demand clause (shown under current liabilities) | | |
| – repayable within one year | 34,041 | 35,018 |
| – repayable in the second year | 54,861 | 27,006 |
| – repayable in the third to fifth year inclusive | – | 23,553 |
| | 88,902 | 85,577 |
| Total | 894,071 | 784,261 |
| Less: Amount shown under current liabilities | (389,721) | (301,011) |
| Amount shown under non-current liabilities | 504,350 | 483,250 |
| Secured | 265,154 | 156,050 |
| Unsecured | 628,917 | 628,211 |
| | 894,071 | 784,261 |

At 31st December, 2017, all bank loans are variable-rate borrowings which carry interest ranging from 2.55% to 4.20% (2016: 2.45% to 3.76%) per annum. Interest is repriced every one, two, three or six months.

At 31st December, 2017, the shares of certain subsidiaries of the Company, certain vessels and bank deposits are pledged to secure certain bank loans and banking facilities granted to the Group. At 31st December, 2016, the share of a subsidiary of the Company, certain motor vehicles and bank deposits were pledged to secure certain bank loans and banking facilities granted to the Group.

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36. PAYABLE FOR EXTRACTION RIGHT

During the year ended 31st December, 2015, the Group acquired the extraction right of rock reserve in the quarry site as detailed in note 18(b). Pursuant to the contract with the Government of HKSAR, the total consideration of the extraction right of rock reserve is HK\$653,888,000 which is payable by 14 equal semi-annual instalments until October 2022. The payable is carried at amortised cost of effective interest rate of 5.63% (2016: 5.63%) per annum.

Details of the payable are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Fair value of consideration payable at the beginning of the year | 477,325 | 542,715 |
| Imputed interest for the year | 24,342 | 28,023 |
| Payments during the year | (93,413) | (93,413) |
| Carrying amount at the end of the year | 408,254 | 477,325 |
| Less: Amount shown under current liabilities (note 33) | (72,960) | (90,830) |
| Amount shown under non-current liabilities | 335,294 | 386,495 |

37. PROVISION FOR REHABILITATION COSTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Fair value of estimated costs to be incurred at the beginning of the year | 29,060 | 27,360 |
| Imputed interest for the year | 2,161 | 2,043 |
| Payments during the year | - | (343) |
| Carrying amount at the end of the year | 31,221 | 29,060 |
| Less: Amount shown under current liabilities (included in other creditors and accrued charges) | (1,241) | (858) |
| Amount shown under non-current liabilities | 29,980 | 28,202 |

The provision for rehabilitation costs represents estimated total costs to be incurred for rehabilitation work to be completed in the quarry site as detailed in note 18(b) before the expiry of the contract period in October 2022. The discount rate of the provision for rehabilitation costs is 7.6% (2016: 7.6%) per annum.

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38. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group represent tax effect of fair value of intangible assets arising from the acquisition of a subsidiary during the year ended 31st December, 2005. There is no movement of the balance during each of the two years ended 31st December, 2017 and 2016.

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:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------|--------------------------------|------------------|
| Tax losses to expire in: | | |
| Carried forward indefinitely | 816,314 | 618,365 |

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

39. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, interest-free and has an agreed repayment term which is not repayable within twelve months from the end of the reporting period and the balance is therefore shown under non-current liabilities. The amount is carried at amortised cost using effective interest rate of 5.4% (2016: 5.4%) per annum.

40. BONDS

On 5th January, 2015 and 28th October, 2015, BKCL, a wholly owned subsidiary of Build King as the issuer and Build King as the guarantor had entered into placing agreements 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 1st January and 1st July of each calendar year, up to but excluding the maturity date of the bonds. At 31st December, 2017, bonds with the total amount of HK\$127,400,000 (2016: HK\$127,400,000), 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 7.60% per annum and increasing the net carrying amount of the bonds with the corresponding amount.

On 23rd October, 2015, Elite Excellent Investments Limited ("Elite Excellent"), a wholly owned subsidiary of the Company, as the issuer executed a bond instrument for the purposes of issuing of perpetual bonds in denomination of HK\$10,000 each with a limit on the aggregate principal amount of HK\$61,250,000. On 24th August, 2016, Elite Excellent executed a supplemental deed which increased the limit on the aggregate principal amount to HK\$122,500,000. The bonds are redeemable at any time at the option of Elite Excellent and carry coupon interest of 5% per annum, accrued daily on a 365 days basis and be paid at any time in any year selected by Elite Excellent for so long as the perpetual bonds remain outstanding. At 31st December, 2017, bonds with a total principal amount of HK\$90,650,000 (2016: HK\$78,400,000) are issued. The effective interest rate of the bonds is 5% per annum.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

41. SHARE CAPITAL

| | Number of shares | | Share capital | |
|--|------------------|--------------|------------------|------------------|
| | 2017 '000 | 2016 '000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorised: | | | | |
| At the beginning and the end of the year | 1,000,000 | 1,000,000 | 100,000 | 100,000 |
| Issued and fully paid: | | | | |
| At the beginning and the end of the year | 793,124 | 793,124 | 79,312 | 79,312 |

42. TRANSLATION RESERVE AND NON-CONTROLLING INTERESTS

| | Translation reserve HK\$'000 | Non- controlling interests HK\$'000 |
|---|------------------------------------|--|
| At 1st January, 2016 | 683,638 | 200,912 |
| Profit for the year | – | 65,093 |
| Exchange differences arising on translation of foreign operations | (4,117) | (3,245) |
| Share of translation reserves of associates | (309,736) | – |
| Capital contribution from non-controlling shareholders | – | 15,685 |
| Distribution to non-controlling shareholders | – | (8,797) |
| Acquisition of additional interest in a subsidiary | – | (5,054) |
| Disposal of partial interest in a subsidiary without losing control | – | 200 |
| At 31st December, 2016 | 369,785 | 264,794 |
| Profit for the year | – | 81,827 |
| Exchange differences arising on translation of foreign operations | 5,166 | 4,436 |
| Share of translation reserves of associates | 355,564 | – |
| Distribution to non-controlling shareholders | – | (13,869) |
| Acquisition of additional interest in a subsidiary | – | (16,611) |
| Disposal of partial interest in a subsidiary without losing control | – | 100 |
| At 31st December, 2017 | 730,515 | 320,677 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

43. SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) was adopted by the Company at the annual general meeting held on 15th May, 2012.

A summary of the Share Option Scheme is set out as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and its shareholders as a whole.

(b) Participants of the Share Option Scheme

The participants include any executive or non-executive directors of the Group, any executives or officers and full-time employees of the Group who the Board or a committee thereof appointed for the purpose of administering the Share Option Scheme considers, in its sole discretion, have contributed or will contribute to the Group.

(c) Total number of shares available for issue under the Share Option Scheme and percentage of the issued share capital at the date of this annual report

No share option of the Company has been granted under the Share Option Scheme since its adoption and up to the date of this annual report.

The total number of shares available for issue under the Share Option Scheme is 79,312,403 shares representing 10% of the Company’s issued share capital at the date of this annual report.

(d) Maximum entitlement of each participant under the Share Option Scheme

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless the same is approved by the shareholders of the Company.

(e) The period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period commencing on the 1st anniversary of the date of its commencement (being the date upon which the option is deemed to be accepted pursuant to the Share Option Scheme) and expiring on the 4th anniversary of such date of commencement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

43. SHARE OPTION SCHEME (Cont'd)

(f) The minimum period for which an option must be held before it can be exercised

An option must be held for a year before it can be exercised.

(g) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid

HK\$1 is to be paid as consideration for the grant of option on or before the date of acceptance (being a date not later than 30 days after the date of grant).

(h) The basis of determining the exercise price

The exercise price shall be determined by the Board in its absolute discretion but in any event shall be at least the highest of:

- (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;
- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and
- (iii) the nominal value of the shares of the Company.

(i) The remaining life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, i.e. 15th May, 2012.

44. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which include bank loans and bonds as disclosed in notes 35 and 40, and equity attributable to owners 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 takes into account the provision of funding. Based on the proposed annual budget, the management of the Group considers the cost of capital and the risks associated with the capital. The directors of the Company also balance its overall capital structure through payment of dividends, issue of new shares as well as raise of new debts or the redemption of existing debts.

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

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For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Financial assets | | |
| Available-for-sale investments | 63,112 | 109,215 |
| Held-for-trading investments | 46,391 | 25,562 |
| Loans and receivables (including cash and cash equivalents) | 3,358,126 | 2,554,717 |
| | 3,467,629 | 2,689,494 |
| Financial liabilities | | |
| Amortised cost | 3,750,601 | 2,981,641 |

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, loans to a joint venture, other financial asset, loan and other receivables, debtors, held-for-trading investments, pledged bank deposits, bank balances and cash, creditors, bank loans, bonds and amounts due from/to associates, a joint venture, other partners of joint operations and non-controlling shareholders. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Certain available-for-sale investments, other debtors, loan and other receivables, bank balances and trade and other creditors are denominated in foreign currencies which are different from the functional currency of the relevant group entities and therefore the Group is exposed to currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currencies should the needs arise.

The carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|----------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Renminbi | 3,582 | 29,124 | 4 | 1,655 |
| United States dollar | 256,321 | 109,218 | - | - |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(i) Currency risk (Cont'd)

Sensitivity analysis

The Group is mainly exposed to the currency risks for fluctuation in exchange rates of Renminbi and United States dollar.

As monetary assets and liabilities denominated in Renminbi are insignificant and United States dollar is pegged with Hong Kong dollar, the currency risk exposure is considered immaterial. Hence, no foreign currency sensitivity analysis in relation to Renminbi and United States dollar is disclosed.

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk relates primarily to bank loans (see note 35) which are at variable-rate and determined by reference to the prevailing market rate. 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 currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the needs arise.

The Group's exposure to interest rate risk for financial liabilities is detailed in the liquidity risk section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk for non-derivative instruments at the end of the reporting period.

The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2016: 100 basis points) 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 (2016: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2017 would decrease/increase by HK\$7,465,000 (2016: HK\$6,549,000). This is mainly attributable to the Group's exposure to fluctuation in interest rates on its variable-rate bank loans.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

(iii) Other price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to security price risks at the end of the reporting period.

If the prices of the respective instruments had been 10% (2016: 10%) higher/lower while all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2017 would increase/decrease by HK\$3,874,000 (2016: HK\$2,134,000) as a result of the changes in fair values of held-for-trading investments.

The other price sensitivity analysis above represents the exposure of the held-for-trading investments at the end of the reporting period only. It may not be representative of the exposure for the year.

Credit risk

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 is arising from the carrying amounts of respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade debtors and loan and other receivables. The Group is exposed to concentration of credit risk as the major customer of the Group is the Government of HKSAR.

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 trade debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31st December, 2016, the Group's credit risk was also attributable to its loan receivable. Since the loan receivable from an independent third party was secured by 51% equity interest in a PRC company with the share of net assets value higher than the carrying amount of the loan receivable, the directors of the Company considered that the credit risk was minimal.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At 31st December, 2017, the Group has available unutilised bank and other borrowings facilities of HK\$893,851,000 (2016: HK\$569,636,000) and HK\$50,000,000 (2016: HK\$23,826,000) respectively.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have 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 financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest cash flows are at floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

At 31st December, 2017

| | Weighted average effective interest rate % | Repayable on demand or less than 3 months HK\$'000 | More than 3 months but less than 6 months HK\$'000 | More than 6 months but less than 1 year HK\$'000 | More than 1 year but less than 3 years HK\$'000 | More than 3 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|------------------------|--|--|--|--|---|----------------------------------|---|--------------------------------|
| Financial liabilities | | | | | | | | |
| Non-interest bearing | - | 1,942,401 | 59,682 | 75,788 | 388,760 | 235,604 | 2,702,235 | 2,637,180 |
| Fixed interest rate | 6.53 | - | 4,550 | 4,550 | 129,073 | 118,866 | 257,039 | 219,350 |
| Variable interest rate | 3.84 | 267,511 | 33,192 | 110,674 | 501,435 | 20,503 | 933,315 | 894,071 |
| | | 2,209,912 | 97,424 | 191,012 | 1,019,268 | 374,973 | 3,892,589 | 3,750,601 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Liquidity tables (Cont'd)

At 31st December, 2016

| | Weighted average effective interest rate % | Repayable on demand or less than 3 months HK\$'000 | More than 3 months but less than 6 months HK\$'000 | More than 6 months but less than 1 year HK\$'000 | More than 1 year but less than 3 years HK\$'000 | More than 3 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|------------------------|--|--|--|--|---|----------------------------------|---|--------------------------------|
| Financial liabilities | | | | | | | | |
| Non-interest bearing | - | 1,290,482 | 46,706 | 48,854 | 361,821 | 332,903 | 2,080,766 | 1,990,800 |
| Fixed interest rate | 6.64 | - | 4,550 | 4,550 | 18,200 | 213,197 | 240,497 | 206,580 |
| Variable interest rate | 3.34 | 174,385 | 22,706 | 123,871 | 456,606 | 48,365 | 825,933 | 784,261 |
| | | 1,464,867 | 73,962 | 177,275 | 836,627 | 594,465 | 3,147,196 | 2,981,641 |

Term loans with a repayment on demand clause are included in the “repayable on demand or less than 3 months” time band in the above tables. At 31st December, 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$88,902,000 (2016: HK\$85,577,000). Taking into account the Group’s financial position, the directors do not believe that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates as set out in respective loan agreements as detailed below:

| | Less than 3 months HK\$'000 | More than 3 months but less than 6 months HK\$'000 | More than 6 months but less than 1 year HK\$'000 | More than 1 year but less than 3 years HK\$'000 | More than 3 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount HK\$'000 |
|-------------------------------|-----------------------------------|--|--|---|----------------------------------|---|--------------------------------|
| At 31st December, 2017 | 8,837 | 8,218 | 19,601 | 56,007 | - | 92,663 | 88,902 |
| At 31st December, 2016 | 3,685 | 17,146 | 15,634 | 52,026 | - | 88,491 | 85,577 |

The amounts included above for variable interest rate financial liabilities are subject to change if actual interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

45. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair values

The Group's held-for-trading investments are measured at fair value on a recurring basis, derived from quoted bid prices (unadjusted) in active markets for identical assets and classified as Level 1 of the fair value hierarchy.

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 discounted cash flow analysis, with the most significant input 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 statement of financial position approximate to their fair values.

46. CAPITAL COMMITMENTS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 2,634 | 101,229 |

47. OPERATING LEASE COMMITMENTS

The Group as lessor

At the end of the reporting period, the Group has the following future minimum lease receipts under non-cancellable operating leases in respect of land and buildings:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 541 | 3,125 |
| In the second to fifth year inclusive | 856 | 874 |
| Over five years | 90 | – |
| | 1,487 | 3,999 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

47. OPERATING LEASE COMMITMENTS (Cont'd)

The Group as lessee

At the end of the reporting period, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---------------------------------------|-------------------------|-------------------------|
| Within one year | 38,539 | 24,930 |
| In the second to fifth year inclusive | 73,317 | 37,512 |
| Over five years | 6,129 | – |
| | 117,985 | 62,442 |

Leases are negotiated for terms ranging from 1 to 6 years and rentals are fixed at the inception of respective leases.

48. CONTINGENT LIABILITIES

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Outstanding tender/performance/retention bonds in respect of construction contracts | 720,694 | 614,307 |

49. 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 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 the 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

49. RETIREMENT BENEFITS SCHEMES (Cont'd)

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government. The subsidiaries are required to contribute a fixed percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the amount charged to profit or loss of HK\$39,343,000 (2016: HK\$30,747,000) represents the aggregate retirement benefits scheme contributions for the Group's employees, net of forfeited contributions.

50. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------|------------------|------------------|
| Associates | | |
| Construction contract revenue | 94,797 | – |
| Purchase of raw materials | 2,865 | 4,161 |
| Transportation expenses | 2,844 | 4,665 |
| Interest income | 285 | 215 |
| Service income | 120 | 120 |
| Joint operations | | |
| Sale of construction materials | 64,784 | 110,071 |
| Related companies (note) | | |
| Construction contract revenue | 232,133 | 208,765 |
| Project management fee income | 25,487 | 9,153 |

Note: The related companies are subsidiaries of a substantial shareholder of the Company.

The above related party transactions of the related companies regarding the construction contract revenue and project management fee income constitute continuing connected transaction which is subject to shareholders' approval, annual review and disclosures requirements under Chapter 14A of the Listing Rules.

The amounts due from/to related parties and the related terms are set out in the consolidated statement of financial position and notes 29, 30, 34 and 39.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

50. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------|--------------------------------|------------------|
| Short-term employee benefits | 65,024 | 56,560 |
| Post-employment benefits | 3,382 | 3,135 |
| | 68,406 | 59,695 |

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

51. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details the changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, included in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Interest payable HK\$'000 | Dividend payable HK\$'000 | Amounts due to associates HK\$'000 <i>(notes 34 and 39)</i> | Amount due to a joint venture HK\$'000 <i>(note 34)</i> | Amounts due to other partners of joint operations HK\$'000 <i>(note 34)</i> | Amounts due to non-controlling shareholders HK\$'000 <i>(note 34)</i> | Bank loans HK\$'000 <i>(note 35)</i> | Bonds HK\$'000 <i>(note 40)</i> | Total HK\$'000 |
|-------------------------------|------------------------------|------------------------------|---|---|---|---|--|---------------------------------------|-------------------|
| At 1st January, 2017 | 3,297 | - | 20,638 | 1,142 | 70,795 | 3,359 | 784,261 | 206,580 | 1,090,072 |
| Interest expenses | 4,378 | - | 568 | - | - | - | 26,436 | 9,620 | 41,002 |
| Dividend declared | - | 161,004 | - | - | - | - | - | - | 161,004 |
| Financing cash flows | - | (161,004) | (663) | - | (9,085) | - | 83,374 | 3,150 | (84,228) |
| At 31st December, 2017 | 7,675 | - | 20,543 | 1,142 | 61,710 | 3,359 | 894,071 | 219,350 | 1,207,850 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

52. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2017 and 2016 are as follows:

| Name of subsidiary | Place of incorporation or registration/ operation | Issued and fully paid ordinary share capital or registered capital* | Effective interest held by the Company | | Principal activities |
|---|---|---|--|--------------------------|---|
| | | | 2017 % | 2016 % | |
| Build King Civil Engineering Limited | Hong Kong | HK\$75,200,000 Ordinary shares | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Civil engineering |
| | | HK\$24,000,000 Non-voting deferred shares | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | |
| Build King Construction Limited | United Kingdom/ Hong Kong | GBP16,072,500 | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Construction and civil engineering |
| Build King Holdings Limited <i>(note b)</i> | Bermuda/ Hong Kong | HK\$124,187,799 | 55.60 | 52.78 | Investment holding |
| Build King Interior & Construction Limited | Hong Kong | HK\$1,000,000 | 38.92 <i>(note a)</i> | 42.22 <i>(note a)</i> | Fitting out, improvement and alteration works for buildings |
| Build King (Zens) Engineering Limited | Hong Kong | HK\$56,000,002 Ordinary shares | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Civil engineering |
| | | HK\$14,800,000 Non-voting deferred shares | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | |
| | | HK\$5,200,000 Non-voting deferred shares <i>(note c)</i> | - | - | |
| Elite Excellent Investments Limited | British Virgin Islands/ Hong Kong | HK\$1,000,000 | 100 | 100 | Provision of financial services |
| Excel Asphalt Limited | Hong Kong | HK\$250,000,000 | 100 | 100 | Manufacturing, trading, delivery and laying of asphalt |
| Excel Concrete Limited | Hong Kong | HK\$10,000,000 | 94.05 <i>(note d)</i> | 94.05 <i>(note d)</i> | Manufacturing, trading and delivery of concrete |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

52. PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation or registration/ operation | Issued and fully paid ordinary share capital or registered capital* | Effective interest held by the Company | | Principal activities |
|--|---|--|--|--------------------------|--|
| | | | 2017 % | 2016 % | |
| Faith Oriental Investment Limited | Hong Kong | HK\$125,010,000 | 100 | 100 | Investment holding, quarrying, manufacturing, trading and delivery of construction materials |
| Grandeur Building Material (Holdings) Limited | Hong Kong | HK\$2 | 100 | 100 | Trading of construction materials |
| Leader Marine Contractors Limited | Hong Kong | HK\$200,000 | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Marine engineering and provision of transportation services |
| Leader Marine Cont. L.L.C. | Sharjah, United Arab Emirates | Dh300,000 | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | First class contracting/ specialised in marine construction |
| Mega Yield International Holdings Limited ("Mega Yield") | Hong Kong | HK\$105,000,000 | 94.05 | 94.05 | Investment holding |
| Titan Foundation Limited | Hong Kong | HK\$20,000,000 | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Civil engineering |
| Wai Hing Quarries (China) Limited | Hong Kong/The PRC | HK\$2 Ordinary shares HK\$1,200,000 Non-voting deferred shares | 100 100 | 100 100 | Production of quarry products |
| Wai Kee China Construction Company Limited | Hong Kong/The PRC | HK\$10,000,000 | 55.60 <i>(note a)</i> | 52.78 <i>(note a)</i> | Civil engineering |
| Wai Kee Quarry Asia Limited | Hong Kong | HK\$2 | 100 | 100 | Investment holding |
| Wai Kee (Zens) Holding Limited | British Virgin Islands | US\$50,000 | 100 | 100 | Investment holding |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

52. PRINCIPAL SUBSIDIARIES (Cont'd)

| Name of subsidiary | Place of incorporation or registration/ operation | Issued and fully paid ordinary share capital or registered capital* | Effective interest held by the Company | | Principal activities |
|--|---|---|--|-------------------|--|
| | | | 2017 % | 2016 % | |
| Wuxi Qianhui Sewage Treatment Co., Ltd. (note e) | The PRC | US\$5,400,000* | 53.15 (note a) | 50.46 (note a) | Sewage treatment |
| Zhuhai Guishan Seawall Construction Company (note e) | The PRC | HK\$47,000,000* | 80 | 80 | Seawall construction and production of quarry products |
| 惠記環保工程(上海)有限公司 (note f) | The PRC | US\$800,000* | 55.60 (note a) | 52.78 (note a) | Environmental engineering |

Notes:

- (a) The Company holds the effective interest in the subsidiary through Build King.
- (b) The shares of Build King are listed on the Main Board of the Stock Exchange.
- (c) 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 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 the holders of the ordinary shares of the company.
- (d) The Company holds the effective interest in the subsidiary through Mega Yield.
- (e) The company is a co-operative joint venture registered in the PRC.
- (f) The company is a foreign owned enterprise registered in the PRC.

Except for Wai Kee (Zens) Holding Limited, all subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results for 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 and Elite Excellent which have issued bonds (see note 40), none of the subsidiaries of the Company had any debt securities outstanding at the end of the year or at any time during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

52. PRINCIPAL SUBSIDIARIES (Cont'd)

Summarised financial information in respect of Build King that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Current assets | 3,080,100 | 2,524,094 |
| Non-current assets | 659,700 | 557,463 |
| Current liabilities | (2,874,562) | (2,380,955) |
| Non-current liabilities | (152,678) | (153,772) |
| Net assets | 712,560 | 546,830 |
| Equity attributable to owners of the Company | 394,513 | 288,749 |
| Non-controlling interests of Build King | 315,042 | 258,332 |
| Non-controlling interests of Build King's subsidiaries | 3,005 | (251) |
| Total equity | 712,560 | 546,830 |
| Revenue | 5,986,382 | 4,871,491 |
| Expenses, net | (5,799,308) | (4,721,945) |
| Profit for the year | 187,074 | 149,546 |
| Profit (loss) for the year attributable to: | | |
| Owners of the Company | 100,381 | 79,437 |
| Non-controlling interests of Build King | 83,849 | 71,069 |
| Non-controlling interests of Build King's subsidiaries | 2,844 | (960) |
| | 187,074 | 149,546 |
| Other comprehensive income (expense) for the year attributable to: | | |
| Owners of the Company | 5,166 | (3,387) |
| Non-controlling interests of Build King | 4,125 | (3,030) |
| Non-controlling interests of Build King's subsidiaries | 312 | (215) |
| | 9,603 | (6,632) |
| Total comprehensive income (expense) for the year attributable to: | | |
| Owners of the Company | 105,547 | 76,051 |
| Non-controlling interests of Build King | 87,974 | 68,038 |
| Non-controlling interests of Build King's subsidiaries | 3,156 | (1,175) |
| | 196,677 | 142,914 |
| Dividends paid to non-controlling shareholders of Build King | 13,869 | 8,797 |
| Net cash inflow (outflow) from: | | |
| Operating activities | 488,479 | 135,317 |
| Investing activities | (315,813) | (235,910) |
| Financing activities | (57,032) | 129,522 |
| | 115,634 | 28,929 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

53. SUMMARISED FINANCIAL INFORMATION OF THE COMPANY

Statement of financial position

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Non-current assets | | |
| Investment in a subsidiary | 123,915 | 123,915 |
| Amounts due from subsidiaries | 200,928 | 172,988 |
| | 324,843 | 296,903 |
| Current assets | | |
| Other debtors and prepayments | 4,065 | 1,659 |
| Amounts due from subsidiaries | 2,304,535 | 2,588,795 |
| Bank balances and cash | 185,907 | 75,146 |
| | 2,494,507 | 2,665,600 |
| Current liabilities | | |
| Other creditors and accrued charges | 922 | 395 |
| Amounts due to subsidiaries | 640,881 | 1,008,074 |
| Bank loans | 31,900 | 32,000 |
| | 673,703 | 1,040,469 |
| Net current assets | 1,820,804 | 1,625,131 |
| Total assets less current liabilities | 2,145,647 | 1,922,034 |
| Non-current liabilities | | |
| Amounts due to subsidiaries | 108,791 | 125,991 |
| Bank loans | 164,100 | 21,000 |
| | 272,891 | 146,991 |
| Net assets | 1,872,756 | 1,775,043 |
| Capital and reserves | | |
| Share capital (<i>note 41</i>) | 79,312 | 79,312 |
| Share premium and reserves | 1,793,444 | 1,695,731 |
| Total equity | 1,872,756 | 1,775,043 |

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2017

53. SUMMARISED FINANCIAL INFORMATION OF THE COMPANY (Cont'd)

Statement of changes in equity

| | Share capital <i>HK\$'000</i> <i>(note 41)</i> | Share premium <i>HK\$'000</i> | Contribution surplus <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|-------------------------------------|--|--|--------------------------|
| At 1st January, 2016 | 79,312 | 731,906 | 93,995 | 821,107 | 1,726,320 |
| Profit and total comprehensive income for the year | – | – | – | 150,243 | 150,243 |
| Dividends paid (<i>note 15</i>) | – | – | – | (101,520) | (101,520) |
| At 31st December, 2016 | 79,312 | 731,906 | 93,995 | 869,830 | 1,775,043 |
| Profit and total comprehensive income for the year | – | – | – | 258,717 | 258,717 |
| Dividends paid (<i>note 15</i>) | – | – | – | (161,004) | (161,004) |
| At 31st December, 2017 | 79,312 | 731,906 | 93,995 | 967,543 | 1,872,756 |

Financial Summary

RESULTS

| | Year ended 31st December, | | | | 2017 HK\$'000 |
|--------------------------------------|---------------------------|------------------|------------------|------------------|------------------|
| | 2013 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | |
| Revenue | 2,545,909 | 3,832,509 | 5,019,483 | 5,327,112 | 6,500,117 |
| Profit before tax from operations: | | | | | |
| Company and subsidiaries | 62,689 | 162,089 | 134,288 | 240,011 | 220,913 |
| Share of results of associates | 387,825 | 406,697 | 334,839 | 516,463 | 833,456 |
| Share of results of joint ventures | – | – | – | 7,512 | 9,968 |
| Profit before tax | 450,514 | 568,786 | 469,127 | 763,986 | 1,064,337 |
| Income tax expense | (1,495) | (1,907) | (3,010) | (29,573) | (70,048) |
| Profit for the year | 449,019 | 566,879 | 466,117 | 734,413 | 994,289 |
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 440,205 | 542,649 | 420,865 | 669,320 | 912,462 |
| Non-controlling interests | 8,814 | 24,230 | 45,252 | 65,093 | 81,827 |
| | 449,019 | 566,879 | 466,117 | 734,413 | 994,289 |

FINANCIAL POSITION

| | At 31st December, | | | | 2017 HK\$'000 |
|-------------------------------|-------------------|------------------|------------------|------------------|--------------------|
| | 2013 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | |
| Total assets | 7,035,149 | 7,833,901 | 9,064,110 | 9,989,572 | 11,727,746 |
| Total liabilities | (1,693,102) | (2,053,833) | (3,164,364) | (3,772,459) | (4,344,340) |
| Net assets | 5,342,047 | 5,780,068 | 5,899,746 | 6,217,113 | 7,383,406 |
| Equity attributable to owners | | | | | |
| of the Company | 5,204,645 | 5,620,263 | 5,698,834 | 5,952,319 | 7,062,729 |
| Non-controlling interests | 137,402 | 159,805 | 200,912 | 264,794 | 320,677 |
| Total equity | 5,342,047 | 5,780,068 | 5,899,746 | 6,217,113 | 7,383,406 |

Corporate Information

EXECUTIVE DIRECTORS

ZEN Wei Pao, William (*Chairman*)
ZEN Wei Peu, Derek
(*Vice Chairman and Chief Executive Officer*)
CHIU Wai Yee, Anriena

NON-EXECUTIVE DIRECTORS

TSANG Yam Pui
CHENG Chi Ming, Brian

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Che Ming, Steve
WAN Siu Kau, Samuel
WONG Man Chung, Francis

AUDIT COMMITTEE

WONG Man Chung, Francis (*Chairman*)
WONG Che Ming, Steve
WAN Siu Kau, Samuel

NOMINATION COMMITTEE

ZEN Wei Pao, William (*Chairman*)
WONG Che Ming, Steve
WAN Siu Kau, Samuel
WONG Man Chung, Francis
ZEN Wei Peu, Derek

REMUNERATION COMMITTEE

WAN Siu Kau, Samuel (*Chairman*)
WONG Che Ming, Steve
WONG Man Chung, Francis
ZEN Wei Pao, William
ZEN Wei Peu, Derek

COMPANY SECRETARY

CHIU Wai Yee, Anriena

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Reed Smith Richards Butler
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Hang Seng Bank Limited
China CITIC Bank International Limited
Bangkok Bank Public Company Limited
DBS Bank Ltd., Hong Kong Branch
Chong Hing Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Unit 1103, 11th Floor
East Ocean Centre
98 Granville Road
Tsimshatsui
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited – 610

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