Build King Holdings Limited

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

Annual Report 2017

CONTENTS

Financial Highlights

FINANCIAL PERFORMANCE HIGHLIGHTS

Percentage of increase in equity** per share	30%
Equity	HK$710 million
Equity per share	HK57 cents
Group revenue	HK$5,986 million
Profit attributable to owners of the Company	HK$184 million
Final dividend per share	HK3 cents

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

FINAL DIVIDEND

The board of directors (the "Board") of the Company recommends the payment of a final dividend of HK3 cents (2016: HK2.5 cents) per ordinary share for the year ended 31 December 2017.

Chairman's Letter

The Group's gain in equity during 2017 was HK$162 million whilst the equity per share increased by 30% to HK57 cents.

Our turnover this year was HK$6 billion which was an increase of 23% over 2016. The net profit attributable to the shareholders was HK$184 million, an increase of 22% over last year, which almost met my target of 3% net profit on turnover; I hope we can maintain this in the coming year. At the end of 2017, we are pleased that we managed to settle the final account of the troublesome joint venture tunnel project, which I have mentioned for the last year or two. Although we provided a significant loss for this project last year, the settlement of this account has regrettably caused a further loss to the Group. However, I assure you that we will continue to try our very best to avoid a similar occurrence in the future.

The Build King Group has been fortunate in the last quarter of 2017 to have secured several new contracts, including the HK$12 billion Tung Chung Reclamation; this is in joint venture with Samsung but we are the lead partner. I am pleased that in addition we have won 2 no. of new building projects. With these, I am now confidently that in 2018 the Group turnover will be at least HK$7 billion with a corresponding increase in profit. This is good news for our shareholders.

The filibustering in the Legislative Council sadly continues to cause significant delays in the award of Government contracts which is bad for our industry. Members of the industry have gone onto the street to protest but this has not made much difference. I would therefore encourage all our shareholders to stand up and speak out, as the filibustering is seriously affecting Hong Kong as a city, including all its citizens. To me this behavior is stupid and totally meaningless and is surely a no-win situation for all involved.

Our order book at the time of writing stands at HK$18 billion, which is an increase of 50% over 2016 and a historic high for Build King. This is equivalent to approximately 2½ years work. However, with several projects due to complete during 2018, we certainly cannot relax and we are continuing to try our best to submit and win all possible tenders in 2018. The market is however a lot more difficult now compared with 2 years ago, particularly for civil engineering projects.

Since listing the Group, our cumulative gain in equity is 716% (taking into consideration of dividend payment over the years) or an average of 16% p.a. I am confident that, with the orders we have on hand, we will again perform well in 2018 but at this moment I am not sure about 2019. No doubt shareholders will be aware that due to fierce competition for recent tenders, margins are very low. Our aim is to counter the impact of this by performing more efficiently on projects going forward and exercising even tighter cost control and, as a result of our increase in turnover, reducing our head office overhead % slightly. It is also our hope that, by having more projects on hand, we will be able to attract new subcontractors and suppliers and the resulting increase in competition will achieve better prices.

However, please don't have any wishful thinking - if Build King can maintain a net profit of around 3%, we will be doing extremely well. There is no magic wand in this business, and sooner or later we will have a year when we fail to meet this target.

Chairman's Letter

BUSINESS ANALYSIS

Construction

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

Civil Engineering

This year our Civil Engineering Division turnover was HK$4.2 billion, a slight decrease of 2% over 2016. We currently have 32 active Civil projects of which 13 are in Joint Venture with others. The high-speed rail tunnel project in joint venture was finally completed and handed over during the year, but as mentioned above a further provision has had to be made for this. As present, most of our current projects are making good progress with satisfactory results and overall we are in good shape.

However, the future short term for the civil engineering does not look bright with fewer projects likely to be out for tender in 2018 and 2019. I anticipate that it will be late 2020 before the situation improves when the 3rd runway above ground structural work is likely to start and new MTR projects are also planned to commence. So frankly in the current market, we are struggling to survive and are forced to bid with lower margins to be competitive.

I mentioned in my last report that we are trying to improve our operation efficiency by 3% in 3 years' time. I can advise that some progress has been made in our subletting process and procurement, and also in better control of costs on site with improved planning and reduced wastage.

The fact that Build King is now well recognized in the industry also helps.

Building

The turnover of our Building Division this year was HK$1.1 billion, an increase of 145% over 2016. Given the orders we already have in hand, I expect to see the turnover of this division increase significantly in 2018. Unlike the civil engineering market, the building market is still quite strong and in the last 12 months, we have been able to secure 4 projects amounting to HK$2 billion! This is an excellent achievement and well above my expectations.

Judging from the number of tenders in progress at the time of writing, it is likely that we will have a good chance of securing more new building projects in the coming year. Not only would this be a real benefit to this division but, at Group level, it will hopefully compensate for the decrease in opportunities for new civil engineering contracts. My hope is for both divisions together to secure more than HK$7 billion of new work in the coming year in order to ensure further growth in 2019.

When we have completed the current new projects in about 2 years' time, we will hopefully have the track record to meet the Housing Authority's criteria to obtain an NW 2 License and be able to undertake their projects.

Specialist Subsidiaries

Our three subsidiaries, namely Titan Foundation, Integral E&M, and Build King Interior & Construction, together achieve a turnover of HK$1.1 billion, an increase of 82% over that of 2016, close to my prediction last year. Whether we can continue to grow these subsidiaries depends on the contracts that we can secure in 2018. The projects these companies undertake tend to be only one or maybe two years duration at the most and hence the short term future is less certain.

The current results of the subsidiaries in terms of the objective stated in my last report has been somewhat mixed. A significant proportion of their work has been for other in-house companies and whilst this has assisted those companies to be competitive and to secure projects, it has not contributed much to the Group turnover. However, I believe that though their net results was not impressive, it is a good start and a move in the right direction for the Group.

Our staff and labour number have further increased from 1911 in 2016 to 2075 by end of 2017.

Outlook

It has taken over 15 years to build up our civil engineering capability; by now I believe Build King is ranked amongst the top five civil engineering contractors in Hong Kong. My aim is to increase our capability and turnover in the Building Division to be around two thirds of the Civil Engineering Division in 3 to 4 years' time. If this can be achieved, our building colleagues will have done a very good job indeed. Unfortunately, the margin in building work is razor-thin but we will nevertheless try our best to achieve a 3% net margin as a Group. Nevertheless, I am concerned that in 2019 we may have difficulty in achieving this, although this time, I hope I am proved wrong.

To overcome the next 3 years or so difficult period, I have mentioned our strategy on how to minimize the impact. With the Building Division winning several new projects, we expect their turnover would be over HK$2 billion in 2018 with a further increase in 2019. At Group level this will, hopefully, compensate for the reduced volume of available civil works. Also, as I said above, we expect our subsidiaries to also contribute more than present.

However to support our growth in the longer-term, we need to look for work outside Hong Kong, and the 'One Belt One Road' initiative must be the automatic choice. For Build King, we only need to identify and to establish Build King successfully in one, or at the most, two countries in the South East Asia region. Countries such as Malaysia, Philippines, Sri Lanka, and maybe Indonesia would be our targets for focused studies. To succeed, we will have to find a reliable local partner to start with; and because most of the infrastructure projects will only be secured with an element of investment, we anticipate the need to joint venture with a Chinese partner who has bank backing to enable us to fund the projects. The business studies have been underway since early 2017 and I hope we can make some sort of start in 2018. One can only begin to understand the actual problems and local practices in such markets by actually undertaking work; too much analysis on paper may not be too useful. Inevitably mistakes will occur but this is part of the risk/price we have to take in venturing into new areas.

Environmental Infrastructure Project

Wuxi Sewage Treatment Plant

The plant in China is in normal operation and the average sewage we are treating and maintaining at 40,000 ton/day. The designed capacity of our plant is 50,000 ton/day and the current throughput is close to this and expansion of the plant may be appropriate. And furthermore we were recently approached by Government to consider increasing of our plant capacity. A further reason is that for better protection of her rivers and lakes, China has gradually raised the standard required of discharged effluent. The cost of such enlarging and also upgrading will be significant and hence we would need to raise the treatment fee charged to Government by a substantial amount. The formal instruction from Government has not yet been issued pending their study of the impact of such a fee increase nationwide. However, we believe their decision will come one way or the other this year.

Dezhou District Head Provider

The profit last year for Dezhou district heating investment is HK$11 million, an increase of 38% over that of 2016. We have not yet made an additional investment in this area as suitable projects do not come by easily. We are however continuing to explore a few positive leads and I am hopeful we may be able to add one or two new projects this year.

There is now a more urgent need for Build King to diversify in order to find new business with sources of some steady income. Firstly, this is because our financial position is now much stronger, so we are able to invest at a quicker pace and put our cash to better use. Secondly, there is a need to minimize the volatile nature of the construction market particularly in the expected difficult construction environment in Hong Kong during the next 2 to 3 years.

Chairman's Letter

Investment

Our gain in equity in 2017 was HK$23 million. Last year eventually we did not make any investment, as in view of the vast amounts of contracts we were tendering and executing, we need to keep sufficient money as working capital. No doubt with hindsight, we did miss out a very good opportunity but, nobody has a crystal ball and I am content with what Build King has achieved in 2017.

This year 2018 is likely to be similar, so unless I can spot a very good investment opportunity, our activity in this area is likely to again be limited.

CORPORATE GOVERNANCE

Communication with Shareholders

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

Dividend Policy

I am pleased to advise that we are able to distribute a dividend of HK3 cents per share. This is equivalent to 20% of our profit as usual. We are still unable to increase the distribution due to our increased workload and the need to keep more working capital to satisfy our clients' requirements. I hope however that we may be able to increase it in the years to come.

Appreciation

Finally, I would like to take this opportunity to express my hearty gratitude to our shareholders, clients, business partners, directors and the hard work of our loyal and dedicated staff.

Zen Wei Peu, Derek
Chairman

8 March 2018

Overall Results

For the year 2017, the Group's turnover increased by 23% from HK$4,871 million to HK$5,986 million. The increase of turnover was in line with the planned progress of the major projects, most of which recorded substantial works during the year. Even though provision of loss was made for a completed project in UAE and Express Rail Link project, the gross profit margin was maintained at 7.7%, same as that in 2016. As a result of the increase of turnover, profit after tax increased by 25% from HK$150 million to HK$187 million.

Amid the fierce competition in construction market, we 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 such as reclamation works for Tung Chung New Town Extension and construction of a tunnel at Yau Ma Tei for Central Kowloon Route. As at the date of this report, the total outstanding value of works on hand amounted to HK$18 billion.

On current civil engineering projects, the overall progress was satisfactory. Of the three projects for Shatin Central Link, physical works of Diamond Hill Station and Hung Hom North Approach Tunnel were substantially done and final accounts are close to agreement with MTRC whereas Kai Tak Station progressed well and works were completed almost to 90%. The Northern Connection Plaza for Tuen Mun-Chek Lap Kok Link completed over 75% and is slightly ahead of the program. The infrastructural works of Liangtang/Heung Yuen Wai boundary control point has completed 70% on time and within budget. The Deep Cement Mixing project at Hong Kong International Airport, despite delay due to the technical problems at the start, was returning to normal efficiency and aiming at completing works in 2018. On Central Wanchai Bypass C3 at Wanchai West, only minor works were outstanding and final account was being prepared.

For the building division, two projects - the construction of the commercial complex at Tsing Yi and Harbour Road Sports Centre, were completed on time during 2017. Together with four new projects awarded around end of 2017, the division are having nine active projects with outstanding works of HK$3 billion.

To diversify the revenue base and enhance steady return to shareholders, the Group leveraged on the investment experience of Wai Kee Group in property market in United States and participated as a 30% partner in a joint venture with Wai Kee to invest in investment properties in United States. The Group committed to invest US$15 million (equivalent to HK$117 million) in the joint venture. Since the formation in September 2017, the joint venture has jointly with third parties acquired two residential properties at total price of US$88 million in Texas, United States for rental income; the Group had contributed US$6 million (equivalent to HK$47 million) to the joint venture to finance the acquisitions.

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.

Employees and Remuneration Policies

As at 31 December 2017, the Group had a total of 2,075 employees and total remuneration for the year ended 31 December 2017 was approximately HK$964 million. Competitive remuneration packages are structured for each employee commensurate with individual responsibility, qualifications, experience and performance. In addition, discretionary bonuses may be paid depending upon the financial performance of the Group as well as performance of the individual.

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2017, the Group had liquid assets of HK$994 million (as at 31 December 2016: HK$851 million) comprising held-for-trading investments of HK$45 million (as at 31 December 2016: HK$25 million) and bank balances and cash of HK$949 million (as at 31 December 2016: HK$826 million).

As at 31 December 2017, the Group had a total of interest bearing borrowings of HK$364 million (as at 31 December 2016: HK$371 million) comprising bank loans of HK$236 million (as at 31 December 2016: HK$243 million) and the bonds of HK$128 million (as at 31 December 2016: HK$128 million) with following maturity profile:

	At 31 December 2017 HK$ million	At 31 December 2016 HK$ million
On demand or within one year	**181**	192
In the second year	**55**	27
In the third to fifth year inclusive	**128**	152
	364	371

The Group's borrowings, bank balances and cash and held-for-trading investments were principally denominated in Hong Kong dollars. Hence, there is no exposure to foreign exchange rate fluctuations. During the year, the Group had no financial instrument for hedging purpose. As at 31 December 2017, total borrowings of HK$128 million (as at 31 December 2016: HK$128 million) carried interest at fixed rate.

Capital Structure and Gearing

As at 31 December 2017, total equity was HK$713 million (as at 31 December 2016: HK$547 million) comprising ordinary share capital of HK$124 million (as at 31 December 2016: HK$124 million), reserves of HK$586 million (as at 31 December 2016: HK$423 million) and non-controlling interests of HK$3 million (as at 31 December 2016: (HK$251,000)).

As at 31 December 2017, the gearing ratio, representing total interest bearing borrowings as a percentage of total equity, was 51% (as at 31 December 2016: 68%).

Pledge of Assets

As at 31 December 2017, bank deposits of the Group amounting to HK$37,000 (as at 31 December 2016: HK$101,000) were pledged to banks for securing the banking facilities granted to the Group.

As at 31 December 2017, the Group had pledged certain vessels with carrying value in aggregate of HK$139,787,000 to secure a bank loan.

Contingent liabilities

	As at 31 December 2017 HK$ million	As at 31 December 2016 HK$ million
Outstanding tender/performance/retention bonds in respect of construction contracts	**709**	602

EXECUTIVE DIRECTORS

ZEN Wei Peu, Derek, age 65, has been the Chairman of the Company since 23 April 2004. He is a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He is also the Vice Chairman of Wai Kee Holdings Limited ("Wai Kee") and the Co-Chairman of Road King Infrastructure Limited ("Road King"), the shares of both are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Zen holds a Bachelor of Science degree in Engineering from The University of Hong Kong and a Master Degree in Business Administration from The Chinese University of Hong Kong. He is a member of the Institution of Civil Engineers and The Hong Kong Institution of Engineers and a fellow member of the Institution of Quarrying, the United Kingdom ("UK"). He was the Honorary Treasurer of Hong Kong Construction Association. He has over 40 years of experience in civil engineering.

CHANG Kam Chuen, Desmond, age 52, has been appointed as an Executive Director of the Company since 1 June 2008. He has been appointed as the Company Secretary of the Company since 31 May 2005. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of Chartered Institute of Management Accountants, UK. He has over 25 years of experience in accounting profession and financial management. Mr. Chang is responsible for the finance, human resources, information technology, administration and secretarial departments of the Group.

NON-EXECUTIVE DIRECTORS

David Howard GEM, age 77, has been appointed as a Non-executive Director of the Company since 9 August 2004. He had been a member of the Audit Committee of the Company since 29 July 2005 and resigned on 12 January 2011. He is a Chartered Engineer and is a member of both the Institution of Civil Engineers, London and The Hong Kong Institution of Engineers. He is also a member of The Chartered Institute of Arbitrators and a fellow of The Hong Kong Institute of Highways and Transportation. He has over 45 years of experience with contractors in the management, design and construction of a wide variety of civil engineering and building projects in UK, Asia and Hong Kong. He was a past Vice President of The Hong Kong Construction Association and Chairman of The Civil Engineering Committee. He was also a past Chairman of the Civil Engineering Division of The Hong Kong Institution of Engineers and a past member of the Construction Advisory Board to the Hong Kong Government.

CHAN Chi Hung, Anthony, age 44, has been appointed as a Non-executive Director of the Company since 4 December 2008. He holds a Bachelor of Science Degree with major in Economics with University of Minnesota, and is an alumni of Stanford Graduate School of Business with a certificate of Stanford Executive Program. He is currently an Independent Non-executive Director of China Minsheng Drawin Technology Group Limited and Milan Station Holdings Limited, the shares of both are listed on the Main Board of the Stock Exchange. He was an Executive Director of EPI (Holdings) Limited, the shares of which are listed on the Main Board of the Stock Exchange, up to his resignation on 19 October 2016. Mr. Chan was previously the Investment Manager of Springfield Financial Adv. Ltd. in charge of its private equity, fund-of-funds and fixed income investment portfolios. Prior to that, he was with J.P. Morgan Chase.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHOW Ming Kuen, Joseph, OBE, JP, age 76, has been appointed as an Independent Non-executive Director since 23 April 2004. He is the Chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. He is a professional civil and structural engineer. He is also a fellow of The Hong Kong Institution of Engineers, the Institution of Civil Engineers and The Institution of Structural Engineers. He is the Chairman of Joseph Chow & Partners Limited, a professional firm of independent civil and structural consulting engineers. Dr. Chow previously served as the President of the Hong Kong Institution of Engineers, the Chairman of Hong Kong Engineers' Registration Board, Hong Kong Examinations and Assessment Authority, Pamela Youde Nethersole Eastern Hospital Governing Committee as well as a member of the Hong Kong Housing Authority and Hospital Authority. Dr. Chow is the Chairman of the Hong Kong Construction Workers Registration Authority and an Hon. Senior Superintendent of the Hong Kong Auxiliary Police Force. He is also an Independent Non-executive Director of Chevalier International Holdings Limited, Harbour Centre Development Limited and Road King, the shares of these companies are listed on the Main Board of the Stock Exchange. He was an Independent Non-executive Director of Hsin Chong Construction Group Ltd, the shares of which are listed on the Main Board of the Stock Exchange up to his resignation on 1 October 2015.

HO Tai Wai, David, age 69, has been appointed as an Independent Non-executive Director since 8 September 2004. He is the Chairman of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Ho has over 40 years of experience in finance and accounting. He is a fellow member of the Association of Chartered Certified Accountants of UK, The Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Ho holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He was an Independent Non-executive Director of Cinderella Media Group Limited, the shares of which are listed on the Main Board of the Stock Exchange, up to his resignation on 22 September 2015.

LING LEE Ching Man, Eleanor, SBS, OBE, JP, age 70, has been appointed as an Independent Non-executive Director of the Company since 30 September 2014. She is the Chairwoman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee of the Company. She was an Independent Non-executive Director of Cinderella Media Group Limited, the shares of which are listed on the Main Board of the Stock Exchange, up to her resignation on 22 September 2015. Mrs. Ling had over 30 years of management experience with one of the largest multinational group in Asia and is a Fellow of the Institute of Chartered Management. Mrs. Ling has retired but remains involved in public services. She is also active in charitable organizations, such as the Maggie's Cancer Caring Centre. She is a Vice Patron of the Community Chest.

SENIOR MANAGEMENT

CHEUNG Siu Lun, age 67, is responsible for the Group's business development. 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.

KWOK Chi Ko, Enmale, age 61, is responsible for the Group's contract administration and commercial management for all building and construction related businesses. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He holds an Engineering Doctorate Degree, a Master Degree in Arbitration & Dispute Resolution and a Master Degree in Laws. He is a Chartered Quantity Surveyor, a Registered Professional Surveyor (QS) and an Accredited Mediator and has been a Fellow Member of the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the Chartered Institute of Arbitrators. He has had over 35 years of experience in building and construction industry.

LEE Man Wai, age 57, is responsible for the Group's tendering activities. He 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.

LIU Sing Pang, Simon, age 56, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He is a member of the Institution of Structural Engineers, 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.

LUI Yau Chun, Paul, age 57, is responsible for the Group's civil and marine engineering operation in Hong Kong. He is a Director and the General Manager (Marine) of Build King (Zens) Engineering, a Director of BKCL, Build King Civil and Leader Marine Contractors Limited, and the General Manager of Leader Marine Cont. L.L.C. which was registered in Sharjah, UAE. He is a member of the Institution of Structural Engineers, and of the Hong Kong Institution of Engineers. He has 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.

MOK Hon Wa, Kenneth, age 54, is responsible for the Group's building operation in Hong Kong. He 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.

SO Yiu Wing, Wilfred, age 43, is responsible for the Group's civil engineering operation in Hong Kong. He is a Director of BKCL, Build King Civil and Build King (Zens) Engineering. He holds a Bachelor degree in Civil Engineering from The University of Hong Kong. He is a member of The Hong Kong Institution of Engineers and a Registered Professional Engineer (CVL). He is a council member of Hong Kong Construction Association. He has over 20 years of experience in civil engineering construction.

SENIOR MANAGEMENT (Continued)

WU Siu Ho, age 65, is responsible for the Group's new business development. He is a Director of BKCL and Build King Civil. He is also the project director of MTR Contract No. SCL1108 Kai Tak Station and Associated Tunnels and MTR Contract No. SCL1106 Diamond Hill Station. He holds a Bachelor of Science Degree in Engineering from The University of Hong Kong. He has over 40 years of extensive experience in management of engineering companies. He is a member of The Institution of Mechanical Engineers and The Hong Kong Institution of Engineers. He is also a Chartered Engineer of UK.

YEOW Chin Lan, Denis, age 47, joined the Group in September 1999 and is the Group Financial Controller responsible for the financial management and accounting of the Group. 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.

YIU Cheuk Hung, Kenneth, age 52, is responsible for the Group's building operation in Hong Kong. He 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 Engineer, 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.

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

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 46 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the five largest customers of the Group together accounted for approximately 83% of the Group's turnover, with the largest customer accounted for approximately 36%, and the five largest suppliers of the Group together represented less than 8% by value of the Group's total purchases.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 64 and 65 respectively.

The Board recommends the payment of a final dividend of HK3 cents per ordinary share for the year ended 31 December 2017 to shareholders whose names appear in the register of members of the Company on Tuesday, 29 May 2018. The details of the final dividend are set out in note 13 to the consolidated financial statements.

Subject to the approval of shareholders at the forthcoming annual general meeting, it is expected that the payment of final dividend will be made on or before Friday, 6 July 2018.

CLOSURES OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting to be held on Friday, 18 May 2018, the register of members of the Company will be closed from Tuesday, 15 May 2018 to Friday, 18 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 Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 14 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, 29 May 2018. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 28 May 2018 to Tuesday, 29 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 Progressive Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 25 May 2018.

Directors' Report

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed "Financial Highlights" on page 2, "Chairman's Letter" on pages 3 to 6, "Management Discussion and Analysis" on pages 7 and 8, "Corporate Governance Report" on pages 25 to 38, "Consolidated Financial Statements" on pages 64 to 130 and "Financial Summary" on page 131. Description of the principal risks and uncertainties facing the Group can be found throughout this annual report.

SEGMENTAL INFORMATION

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

SHARE CAPITAL

Details of the Company's share capital are set out in notes 31 and 32 to the consolidated financial statements.

RESERVES

Details of movement in the reserves of the Group for the year is set out in the consolidated statement of changes in equity on page 68.

DISTRIBUTABLE RESERVES

The reserves of the Company which were available for distribution to the shareholders at 31 December 2017 were HK$1,059,000.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2017, the Company has not entered into any equity-linked agreement.

FINANCIAL SUMMARY

A summary of the results and of financial position of the Group for the past five financial years is set out on page 131.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of the Group's bank borrowings for the year ended 31 December 2017 are set out in note 30 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEMES

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

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

Non-executive Directors
David Howard Gem
Chan Chi Hung, Anthony

Independent Non-executive Directors
Chow Ming Kuen, Joseph
Ho Tai Wai, David
Ling Lee Ching Man, Eleanor

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

In accordance with Bye-law 111 of the Company's Bye-laws, Mr. David Howard Gem, Mr. Chan Chi Hung, Anthony and Mrs. Ling Lee Ching Man, Eleanor 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 has received from each Independent Non-executive Director an annual confirmation of his/her independence during the year ended 31 December 2017 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. The Company considers all the Independent Non-executive Directors to be independent.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS

As at 31 December 2017, the interests (including short positions) of the directors (the "Directors") and chief executive of the Company (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carried voting rights of the Company and its associated corporations (within the meaning of the Securities & Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short position in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, were as follows:

(I) The Company

Interests in Shares

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

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

(II) Associated Corporations

Interests in Shares

			Number of shares held		
Name of Director	**Name of company**	**Capacity/ Nature of interest**	**Long Position** (Note 1)	**Short position**	**Percentage of shareholding** (%)
Zen Wei Peu, Derek	Wai Kee Holdings Limited ("Wai Kee")	Personal	185,557,078	–	23.40
	Wai Kee (Zens) Construction & Transportation Company Limited (Note 2)	Personal	2,000,000	–	10.00
	Wai Luen Stone Products Limited	Personal	30,000	–	37.50

Note:

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

2. With effect from 29 February 2016, the name of Wai Kee (Zens) Construction & Transportation Company Limited has been changed to Build King (Zens) Engineering Limited.

DIRECTORS' INTERESTS (Continued)

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in any equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

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

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions" below and in note 42 to the consolidated financial statements, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

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

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

COMPETING INTEREST

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2017, so far as was known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

		Number of Shares held and percentage of shareholding			
		Long position (Note 1)		**Short position**	
Name of substantial Shareholder	**Capacity/Nature of interest**	**Number of Shares**	%	**Number of Shares**	%
Top Horizon Holdings Limited ("Top Horizon") (Note 2)	Beneficial owner	690,525,033	55.60	–	–
Wai Kee (Zens) Holding Limited ("Wai Kee (Zens)") (Note 3)	Corporate	690,525,033	55.60	–	–
Wai Kee (Note 4)	Corporate	690,525,033	55.60	–	–

Notes:

1. Long position in the Shares.

2. Top Horizon is a direct wholly-owned subsidiary of Wai Kee (Zens). Mr. Zen Wei Peu, Derek is a director of Top Horizon.

3. Wai Kee (Zens) is deemed to be interested in the Shares through its interests in Top Horizon. Mr. Zen Wei Peu, Derek is a director of Wai Kee (Zens).

4. Wai Kee (Zens) is a direct wholly-owned subsidiary of Wai Kee. Accordingly, Wai Kee is deemed to be interested in the Shares through its interests in Wai Kee (Zens). Mr. Zen Wei Peu, Derek is the Vice Chairman, the Chief Executive Officer and an executive director of Wai Kee.

Save as disclosed above, as at 31 December 2017, no other person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Connected transactions

(1) Articles of Agreement with Power Truth Development Limited ("Power Truth Development")

Build King Construction Limited ("BKCL", a wholly-owned subsidiary of the Company) entered into articles of agreement dated 14 March 2017 (the "Articles of Agreement") with Power Truth Development Limited ("Power Truth Development"), pursuant to which Power Truth Development appointed BKCL as a contractor to perform site formation and substructure works for the residential development project at Lot No. 1066 in Demarcation District No. 103, Au Tau, Yuen Long, New Territories, Hong Kong. Subject to adjustments in respect of any authorised variations to specific construction works as stated in the Articles of Agreement, the maximum price is expected to be approximately HK$149.4 million. The price includes contingent and/or provisional contract amounts which may or may not materialise and may not be the same as the actual revenue that the Group will derive from the Articles of Agreement. As the Company is a non-wholly owned subsidiary of Wai Kee, a substantial shareholder of the Company, and Power Truth Development (a wholly-owned subsidiary of Road King Infrastructure Limited ("Road King") is an associate of Wai Kee for the purposes of the Listing Rules, Wai Kee and Power Truth Development are connected persons of the Company under the Listing Rules and the transactions contemplated under the Articles of Agreement constituted a connected transaction of the Company under the Listing Rules. The transaction was announced by the Company in its announcement dated 14 March 2017 and approved by independent shareholders at the special general meeting of the Company held on 11 April 2017. The construction contract revenue recognized by the Group in connection with the Articles of Agreement is disclosed under "An associate of ultimate holding company – Construction contract revenue" in note 42 to the consolidated financial statements.

(2) Shareholders' Agreement with WK Real Estate Fund LP ("WK Real Estate") and Lion Trade Global Limited ("Lion Trade")

WK Real Estate (the only general partner of which is WK Real Estate Fund GP Limited, a wholly-owned subsidiary of Wai Kee), New River Global Limited ("New River", a wholly-owned subsidiary of the Company) and Lion Trade entered into a shareholders' agreement dated 13 September 2017 (the "Shareholders' Agreement") to regulate the management of Lion Trade, which is owned by WK Real Estate and New River as to 70% and 30% respectively. The business of Lion Trade is to invest, manage and divest in investment properties in the United States. The aggregate shareholders' loan to be provided by WK Real Estate and New River under the Shareholders' Agreement is US$35 million (approximately HK$273 million) and US$15 million (approximately HK$117 million), respectively and each of them will provide the funding pro rata to their proposed shareholdings in Lion Trade. Such shareholders' loan will be unsecured, interest-free and will be repaid from time to time by Lion Trade subject to the unanimous approval of the board of the directors of Lion Trade. As the Company is a non-wholly owned subsidiary of Wai Kee, each of Wai Kee and WK Real Estate is a connected person of the Company under the Listing Rules and the entering into of the Shareholders' Agreement with WK Real Estate and the transactions contemplated thereunder constituted a disclosable and connected transaction of the Company under the Listing Rules. The transaction was announced by the Company in its announcement dated 13 September 2017 and approved by independent shareholders at the special general meeting of the Company held on 11 October 2017. The total investment made by New River as at 31 December 2017 is disclosed in note (c) to the table setting out details of each of the Group's joint ventures in note 19 to the consolidated financial statements.

CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions

(3) Framework Agreements with Wai Kee

On 7 June 2016, the Company entered into a framework agreement (the "2016 Framework Agreement") with Wai Kee, whereby the Group may, but is not obliged to, purchase ready mixed concrete ("Concrete") from Wai Kee (or its subsidiaries and/or associates) from time to time during the period from 1 January 2016 to 31 December 2018 for the Group's construction projects, subject to the terms and conditions of 2016 Framework Agreement. The maximum aggregate value of the contract sum in respect of the purchase of Concrete by the Group from Wai Kee (or its subsidiaries and/or associates) for the periods concerned under the 2016 Framework Agreement are subject to annual caps and shall not exceed the amounts set out below:

Period	Total value not exceeding
1 January 2016 – 31 December 2016	HK$90,000,000
1 January 2017 – 31 December 2017	HK$80,000,000
1 January 2018 – 31 December 2018	HK$60,000,000

As the Company expected the aggregate amounts of Concrete procured or to be procured from Wai Kee in 2017 may exceed the existing 2017 annual cap of HK$80 million, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Wai Kee on 24 November 2017, pursuant to which the parties agreed to increase the annual cap for 2017 to HK$100 million for the purchase of Concrete by the Company and to shorten the term of the 2016 Framework Agreement to two years from 1 January 2016 to 31 December 2017.

In addition, the Company entered into a framework agreement (the "2018 Framework Agreement") with Wai Kee on 24 November 2017, whereby the Group may, but is not obliged to purchase Concrete from Wai Kee (or its subsidiaries and/or associates) for the purchase of Concrete from time to time for the period from 1 January 2018 to 31 December 2020, subject to the terms and conditions of the 2018 Framework Agreement.

Under the Supplemental Agreement and the 2018 Framework Agreement, the Company and Wai Kee agreed that the maximum aggregate values of the contract sum in respect of the sale and purchase of Concrete will not exceed the amounts set out below:

Period	Total value not exceeding
1 January 2017 – 31 December 2017	HK$100,000,000
1 January 2018 – 31 December 2018	HK$105,000,000
1 January 2019 – 31 December 2019	HK$190,000,000
1 January 2020 – 31 December 2020	HK$195,000,000

During the year, the relevant maximum aggregate value of the contracts was approximate HK$97,289,000 and the transaction is disclosed in note 42 to the consolidated financial statements.

The transaction was announced by the Company in its announcement dated 24 November 2017 and approved by independent shareholders at the special general meeting of the Company held on 15 December 2017.

CONNECTED TRANSACTIONS (Continued)

Continuing connected transactions (Continued)

(4) Framework Agreement with Road King

On 24 November 2017, the Company entered into a framework agreement (the "Framework Agreement") with Road King in respect of the engagement of member of the Group, subject to successful tender, as the main contractor for the construction works of the present and future property development projects of Road King and its subsidiaries (collectively "Road King Group") in Hong Kong for the three financial years ending 31 December 2020. The parties has acknowledged that if the annual value to be recognised under the contracts entered into between Road King Group and the Group pursuant to the Framework Agreement in respect of each of the financial years specified below exceed the amounts specified below that year in the row headed "Annual Cap", either or both parties may be required to seek additional shareholders' approval under the Listing Rules and shall use all reasonable endeavours to seek such approval in a timely manner:

	Financial year ending 31 December		
	2018	**2019**	**2020**
Annual Cap	HK$650 million*	HK$2,460 million*	HK$2,880 million

* *It includes construction contract revenue that may be generated pursuant to the Articles of Agreement.*

The transaction was announced by the Company in its announcement dated 24 November 2017 and approved by independent shareholders at the special general meeting of the Company held on 15 December 2017.

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

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

(ii) on normal commercial terms; and

(iii) 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.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES

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

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

(2) Term loan facility of up to HK$69.61 million

On 14 November 2016, Build King Civil Engineering Limited ("Build King Civil", a wholly-owned subsidiary of the Company) confirmed its acceptance of the revised banking facilities (the "Banking Facilities") under the terms and conditions of a facility letter dated 2 November 2016 (the "Facility Letter") issued by a bank (the "Bank"). The Banking Facilities comprise four instalment loans up to an aggregate maximum amount of approximately HK$69.61 million with details as follows:

(i) an outstanding loan facility of approximately HK$2.76 million, of which the original loan amount granted to Build King Civil under a facility letter dated 11 December 2013 was HK$8 million repayable by 48 monthly instalments, is to be repaid by 16 monthly instalments each inclusive of interest;

(ii) an outstanding loan facility of approximately HK$2.57 million, of which the original loan amount granted to Build King Civil under a facility letter dated 11 December 2013 was HK$7 million repayable by 48 monthly instalments, is to be repaid by 17 monthly instalments each inclusive of interest;

(iii) an outstanding loan facility of approximately HK$9.28 million, of which the original loan amount granted to Build King Civil under a facility letter dated 2 February 2015 was HK$15 million repayable by 48 monthly instalments each inclusive of interest, is to be repaid by 29 monthly instalments each inclusive of interest; and

(iv) a new loan facility of up to HK$55 million (the "New Loan Facility") to be granted to Build King Civil and repayable by 30 monthly instalments each inclusive of interest, commencing on the date falling seven months from the first drawdown date. The New Loan Facility is available for drawdown within six months from the date of accepting the Facility Letter.

Throughout the life of the Banking Facilities, Wai Kee shall beneficially hold not less than 30% interest (directly or indirectly) in the issued share capital of the Company.

(3) Banking facilities for HK$65 million

On 29 May 2017, BKCL and Build King Interior & Construction Limited ("BK Interior", an indirect non-wholly owned subsidiary of the Company) confirmed the acceptance of a facility letter (the "Facility Letter") issued by a bank. Pursuant to the Facility Letter, the bank agreed to offer the following banking facilities for HK$65 million (collectively the "Banking Facilities"), of which:

(i) Facilities of HK$5 million in aggregate (comprising (i) Trade Facility of HK$5 million; (ii) Overdraft Facility of HK$4 million; and (iii) Revolving Short Term Advance Facility of HK$4 million, aggregate outstanding for the facilities (i) to (iii) not to exceed HK$5 million) made available to BK Interior; and

(ii) Revolving Short Term Advance Facility of HK$60 million made available to BKCL.

The life of the Banking Facilities is not specified and the repayment is on demand and subject to review by the bank on 28 February 2018 and thereafter to an annual review. Wai Kee shall beneficially hold not less than 50% interest (directly or indirectly) in the issued share capital of the Company.

DISCLOSURE PURSUANT TO RULES 13.18 AND 13.21 OF THE LISTING RULES (Continued)

(4) Term loan facility of up to HK$30 million

On 11 August 2017, Build King Civil confirmed its acceptance of a facility letter (the "Facility Letter") issued by a bank. Pursuant to the Facility Letter, the bank agreed to offer a term loan facility of up to HK$30 million (the "Banking Facility") to Build King Civil. The final maturity date of the Banking Facility is 24 months from the date of the first drawdown date. Throughout the life of the Banking Facility, the Company shall remain directly or indirectly at least 50% owned by Wai Kee.

(5) General banking facility of up to HK$50 million

On 11 August 2017, Build King Civil, BKCL and Build King (Zens) Engineering Limited ("Build King (Zens)", which is an indirect wholly owned subsidiary of the Company) (collectively the "Borrowers I") confirmed their acceptance of a facility letter (the "Facility Letter") issued by a bank. Pursuant to the Facility Letter, the bank agreed to offer general banking facilities comprising the following facilities up to an overall limit of HK$50 million (the "Banking Facility") to the Borrowers I:

(i) Revolving Term Loan Facility of up to HK$10 million ("1st RTL Facility") for general operation use, with a sub-limit of HK$10 million for (i) Letter of Credit; (ii) Trust Receipt(s); (iii) Import Loan/Account Payable Financing; and (iv) Letter of Guarantee. The life of the 1st RTL Facility is not specified, which is subject to the Bank's overriding right of repayment on demand; and

(ii) Revolving Term Loan Facility of up to HK$40 million ("2nd RTL Facility") for financing specific construction projects with loan period of 36 months from the date of the 2nd RTL Facility being available or expiry date of the relevant project contract, whichever is earlier, subject to the bank overriding right of repayment on demand.

Throughout the life of the Banking Facility, the Company shall at all times remain directly or indirectly at least 50.1% beneficially owned by Wai Kee.

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

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

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

Name of Director	Details of Changes
ZEN Wei Peu, Derek	Mr. Zen's annual salary has been revised from HK$2.88 million to HK$2.94 million with effect from 1 January 2018.
CHANG Kam Chuen, Desmond	Mr. Chang's annual salary has been revised from HK$2.22 million to HK$2.26 million with effect from 1 January 2018.
David Howard GEM	Mr. Gem's emolument for acting as a Non-Executive Director of the Company has been revised from HK$168,000 to HK$240,000 per annum with effect from 1 March 2018. On 28 February 2018, Mr. Gem entered into a Letter of Appointment with the Company for the period of three years from 1 March 2018 to 28 February 2021, subject to re-election.
CHAN Chi Hung, Anthony	Mr. Chan's emolument for acting as a Non-Executive Director of the Company has been revised from HK$168,000 to HK$240,000 per annum with effect from 1 March 2018. On 28 February 2018, Mr. Chan entered into a Letter of Appointment with the Company for the period of three years from 1 March 2018 to 28 February 2021, subject to re-election.

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

Name of Director	Details of Changes
CHOW Ming Kuen, Joseph	Dr. Chow's emolument for acting as an Independent Non-Executive Director of the Company has been revised from HK$168,000 to HK$240,000 per annum with effect from 1 March 2018. He is also entitled an additional fee of HK$48,000 per annum for acting as the Chairman of the Remuneration Committee of the Company with effect from 1 March 2018. On 28 February 2018, Dr. Chow entered into a Letter of Appointment with the Company for the period of three years from 1 March 2018 to 28 February 2021, subject to re-election.
HO Tai Wai, David	Mr. Ho's emolument for acting as an Independent Non-Executive Director of the Company has been revised from HK$168,000 to HK$240,000 per annum with effect from 1 March 2018. He is also entitled an additional fee of HK$120,000 per annum for acting as the Chairman of the Audit Committee of the Company with effect from 1 March 2018. On 28 February 2018, Mr. Ho entered into a Letter of Appointment with the Company for the period of three years from 1 March 2018 to 28 February 2021, subject to re-election.
LING Lee Ching Man, Eleanor	Mrs. Ling's emolument for acting as an Independent Non-Executive Director of the Company has been revised from HK$168,000 to HK$240,000 per annum with effect from 1 March 2018. She is also entitled an additional fee of HK$48,000 per annum for acting as the Chairwoman of the Nomination Committee of the Company with effect from 1 March 2018. On 28 February 2018, Mrs. Ling entered into a Letter of Appointment with the Company for the period of three years from 1 March 2018 to 28 February 2021, subject to re-election.

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

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

PRE-EMPTIVE RIGHTS

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximate HK$14,000.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the per cent of its public float exceeds 25% for the year ended 31 December 2017 and up to 8 March 2018, the latest practicable date to ascertain such information prior to the issue of this annual report.

AUDITOR

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

On behalf of the Board

Zen Wei Peu, Derek
Chairman

8 March 2018

CORPORATE GOVERNANCE CODE

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

Throughout the year of 2017, the Company has complied with the code provisions of Corporate Governance Code (the "Code") set out in Appendix 14 of the Listing Rules, except for code provision A.2.1 in respect of the separate roles of the chairman and chief executive officer.

Mr. Zen Wei Peu, Derek has been both the Chairman and Chief Executive Officer of the Company. In addition to his responsibilities as Chairman overseeing the function of the Board and formulating overall strategies and polices of the Company, Mr. Zen has taken up the management of the Group's business and overall operation. However, the day-to-day running of the Company has been delegated to the divisional heads responsible for the different aspects of the business.

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 seven Directors including two 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 Peu, Derek *(Chairman, Chief Executive Officer and Managing Director)*	David Howard Gem	Chow Ming Kuen, Joseph
Chang Kam Chuen, Desmond	Chan Chi Hung, Anthony	Ho Tai Wai, David
		Ling Lee Ching Man, Eleanor

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

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

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

THE BOARD (Continued)

Appointment and Re-election

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

Non-executive Directors

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

Independence of Independent Non-executive Directors

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

Role and Delegation

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

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

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

THE BOARD (Continued)

Role and Delegation (Continued)

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

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

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

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

THE BOARD (Continued)

Board Meetings

The Board meets regularly at least four times each year and additional meetings are arranged if and when required. The Directors play an active role in participating the Company's meetings through contribution of their professional opinions and active participation in discussion. During the year, the attendance records of individual Directors at the Board meetings, meetings of three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee, the annual general meeting held on 18 May 2017 and the special general meetings held on 11 April 2017, 11 October 2017 and 15 December 2017 respectively are set out below:

	Meeetings Attended/Held								
Name of Director	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting held on 18 May 2017	Special General Meeting held on 11 April 2017	Special General Meeting held on 11 October 2017	Special General Meeting held on 15 December 2017 at 10:00 a.m.	Special General Meeting held on 15 December 2017 at 10:45 a.m.
Executive Directors									
Zen Wei Peu, Derek	5/5	–	2/2	2/2	1	1	1	1	1
Chang Kam Chuen, Desmond	5/5	–	–	–	1	1	1	1	1
Non-executive Directors									
David Howard Gem	3/5	–	–	–	0	0	0	0	0
Chan Chi Hung, Anthony	5/5	–	–	–	1	1	1	0	0
Independent Non-executive Directors									
Chow Ming Kuen, Joseph	5/5	2/3	2/2	2/2	0	0	0	0	0
Ho Tai Wai, David	5/5	3/3	2/2	2/2	1	1	1	1	1
Ling Lee Ching Man, Eleanor	3/5	3/3	2/2	2/2	0	1	1	1	1

Note:

"-": Not applicable

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

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

THE BOARD (Continued)

Board Meetings (Continued)

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

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

Induction and Continuous Professional Development

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

During the year ended 31 December 2017 and up to the date of this report, no new Director is appointed.

All Directors are requested to provide the Company with their respective training records pursuant to the Code. Trainings received by each of the Directors during the period from 1 January 2017 to 31 December 2017 are summarized as follows:

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

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

THE BOARD (Continued)

Directors' and Officers' Liability Insurance and Indemnity

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

Chairman and Chief Executive Officer

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

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

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

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

Board Diversity Policy

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

BOARD COMMITTEES

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

Audit Committee

Composition

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

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

Role and Function

The main responsibilities of the Audit Committee are to review the consolidated financial statements and the external auditor's reports, and to monitor the integrity of the consolidated financial statements. It also assists the Board to oversee 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 31 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 31 December 2016 and 2017, and the interim results of the Group for the six months ended 30 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 31 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;
- 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.

BOARD COMMITTEES (Continued)

Nomination Committee

Composition

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

Role and Function

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

Summary of Work Done

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

BOARD COMMITTEES (Continued)

Remuneration Committee

Composition

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

Role and Function

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

Summary of Work Done

The following is a summary of the work performed by the Remuneration Committee during the year ended 31 December 2017 and up to the date of this report:

- Approval of the service contract of an Executive Director;
- Approval of year end bonus of Executive Directors for 2016 and 2017;
- Approval of emoluments of Executive Directors (where Mr. Zen Wei Peu, Derek abstained from voting in determining his own remuneration) and senior management;
- Approval of salary adjustment in 2017 and 2018; 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 determine his own remuneration.

The remuneration of a Director is determined with reference to his duties and responsibilities with the Company and the prevailing market situation. Details of the emoluments of Directors for the year ended 31 December 2017 are set out in note 10 to the consolidated financial statements of this annual report. The emoluments paid to senior management for the year ended 31 December 2017 were within the following bands:

	Number of Senior Management
up to HK$2,000,000	2
HK$2,000,001 to HK$3,000,000	2
HK$3,000,001 to HK$4,000,000	6

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' Securities Transactions. All Directors have confirmed, following specific enquiry, that they have complied with the Model Code throughout the year ended 31 December 2017.

The Company has also adopted a code of conduct governing securities transactions by employees who are likely to be in possession of unpublished price-sensitive information in relation to the Group. Formal notifications are sent by the Company to all Directors and relevant employees reminding them that they should not deal in the securities of the Company during the "black out period" specified in the Model Code.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

EXTERNAL AUDITOR'S REMUNERATION AND REPORTING RESPONSIBILITIES

Messrs. Deloitte Touche Tohmatsu has been re-appointed as the Company's external auditor at the annual general meeting of 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 31 December 2017 are as follows:

Type of services	**Fee paid/payable** HK$
Audit	1,904,000
Non-audit services	
Interim review	500,000
Other services	502,000
Total	2,906,000

The statement of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out in the Independent Auditor's Report on pages 58 to 63 forming part of this annual 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 31 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 assurance, but not absolute, 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.

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT

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

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

- Construction Industry Safety Award Scheme 2016 – 2017 – Certificate of Good Performance in the Civil Engineering Sites Category presented by Labour Department, Hong Kong SAR Government

- Construction Industry Safety Award Scheme 2016 – 2017 – Bronze Prize in the Renovation and Maintenance Works Category presented by Labour Department, Hong Kong SAR Government

- Construction Industry Safety Award Scheme 2016 – 2017 – Meritorious Prize in Safety Teams Category presented by Labour Department, Hong Kong SAR Government

- 2 numbers Construction Sites Housekeeping Award Scheme 2016 – The Meritorious Award presented by Drainage Services Department, Hong Kong SAR Government

- Occupational Health Promotional Campaign 2016-17 – Joyful@Healthy Workplace Best Practices Award (Outstanding Award) presented by Labour Department, Hong Kong SAR Government presented by Occupational Safety and Health Council

- Occupational Health Promotional Campaign 2016-17 – Hearing Conservation Best Practices Award (Excellence Award) presented by Labour Department, Hong Kong SAR Government presented by Occupational Safety and Health Council

- Occupational Health Promotional Campaign 2016-17 – Prevention of Pneumoconiosis Best Practices Award (Merit Award) presented by Labour Department, Hong Kong SAR Government presented by Occupational Safety and Health Council

- Construction Site Safety Award 2016 (Gold Award) presented by Civil Engineering and Development Department, Hong Kong SAR Government

- Construction Site Safety Award 2016 (Silver Award) presented by Civil Engineering and Development Department, Hong Kong SAR Government

- Construction Safety Promotional Campaign 2017 – Best Method Statement Award (Bronze Award) presented by Occupational Safety and Health Council

- Construction Safety Promotional Campaign 2017 – Best Safety Culture Site Award (Bronze Award) presented by Occupational Safety and Health Council

QUALITY ASSURANCE, SAFETY AND ENVIRONMENTAL MANAGEMENT (Continued)

- Construction Safety Promotional Campaign 2017 – Best Safety Culture Project Manager/Site Agent (Silver Award) presented by Occupational Safety and Health Council

- Construction Safety Promotional Campaign 2017 – Best Safety Culture Activity Team (Silver Award) presented by Occupational Safety and Health Council

- Construction Safety Promotional Campaign 2017 – Best Safety Culture Sub-contractor (Merit Award) presented by Occupational Safety and Health Council

- 16th Hong Kong Occupational Safety & Health Award – Work Safe Behavior Award (Bronze Award) presented by Occupational Safety and Health Council

- Temporary Works Excellence Award 2017 (Silver Award) presented by Development Bureau, Hong Kong SAR Government and the Construction Industry Council

- 3 numbers of Considerate Contractors Site Award Scheme – Public Works (New Works) (Merit Award) presented by Development Bureau, Hong Kong SAR Government

- Considerate Contractors Site Award Scheme – Outstanding Environmental Management & Performance Award (Gold Award) presented by Development Bureau, Hong Kong SAR Government

- Considerate Contractors Site Award Scheme – Outstanding Environmental Management & Performance Award (Merit Award) presented by Development Bureau, Hong Kong SAR Government

- 2 numbers of HKCA Safety Merit Award presented by The Hong Kong Construction Association

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

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.

ABOUT THIS REPORT

This is the Environmental, Social and Governance ("ESG") Report of Build King Holdings Limited. It discloses our performance and initiatives regarding ESG issues and relevant Key Performance Indicators ("KPIs") of different aspects from 1 January to 31 December 2017. The content can be found on pages 51 to 53.

The Group has diverse business operations in Hong Kong and the Greater China region. Owing to the differences in reporting standards across regions and the fact that our main operation remains in Hong Kong, this report mainly covers the business operations of the Group within Hong Kong.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") sets out in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchanges of Hong Kong Limited.

FEEDBACK

For further information regarding our company and the ESG report, please refer the hyperlinks below:

Corporate Website:
https://www.buildking.hk

ESG Report:
https://www.buildking.hk/eng/sustainability/corporate-responsibility/esg#esg/corporate-governance-report/1

We value your opinion and feedback on our ESG report, and we would like to hear from you on how we could further improve our performance.

Contact information:

Address: Units 601 - 605A, 6/F.,
Tower B, Manulife Financial Centre,
223 Wai Yip Street, Kwun Tong,
Kowloon, Hong Kong

Email: info@buildking.hk

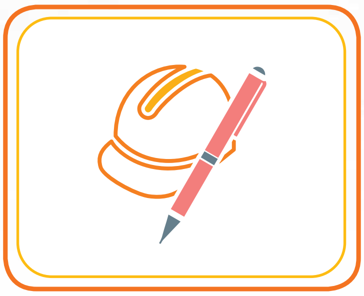
Environmental, Social and Governance Report

ESG MANAGEMENT APPROACH

Recognizing the worldwide concerns towards sustainable development, our Group is committed to integrating sustainable thinking into every aspects of our business. We believe we can build a better future for our people, environment and community.

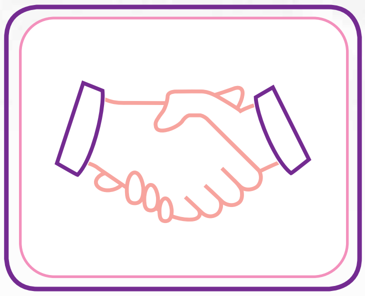
Core Values

At Build King, we have three core values, Professionalism, Innovation and Integrity, as the basis of our corporate culture. These values are embedded into every aspect of our business operations. We aim to deliver an integrated range of professional services, cultivate an atmosphere in which innovation and resourcefulness can flourish, and act with the highest levels of integrity so as to fulfill our commitments with honesty and high moral standards.



Professionalism

Innovation



Integrity

ESG Policy

We set clear ESG policies to guide our human resources management, occupational health and safety, environmental management, supply chain management, and many others. With these policies set in our Management Manual, we strive to ensure compliance to all laws and regulations, and to show commitment to our people, environment, community and other stakeholders. We review the policies annually and recommendations are made to the Board of Directors for updates.

Corporate Governance

The Group is committed to maintaining the highest standards of corporate governance and has complied with the Corporate Governance Code (the "CG Code") sets out in Appendix 14 of the Listing Rules. The detailed content can be found in the Corporate Governance Report on pages 25 to 38.

Governance Structure

The Board of Directors and Senior Management are responsible for leading and reviewing the Company's policies and overseeing all strategic direction relating to ESG issues with the assistance from other operating departments including Business Department, Human Resources Department, Procurement Department, Safety & Environment Department and Training & Development Department. Delegated Managers are accountable for the actual implementation of the policies and in turn delegate responsibility and authority to subordinates staff according to their function.

ESG MANAGEMENT APPROACH (Continued)

Anti-Corruption

At Build King, we take anti-corruption and avoidance of bribery seriously, viewing these issues as long-term challenges to our sustainability. The Group has complied with all relevant laws and regulations regarding anti-corruption and is committed to the utmost professionalism and transparency.

The 'Code of Conduct', along with the 'Whistle-blowing Policy', is in place to ensure all employees adhere to the company policies. We also organize seminars regularly on integrity and corruption prevention for our employees. In 2017, a total of 100 employees have attended these seminars. We believe that these measures form a robust system to prevent risks related to corruption across all our operations. During the year under review, no confirmed incident of corruption concerning the Group or its employees was identified.

PROVIDING BETTER PROSPECTS FOR OUR PEOPLE

Employees are our most valuable asset. We strive to create a safe and healthy workplace, providing career prospects, personal development and learning opportunities, attractive incentives, and are committed to retaining our best talent for the sustainable growth of the Group.

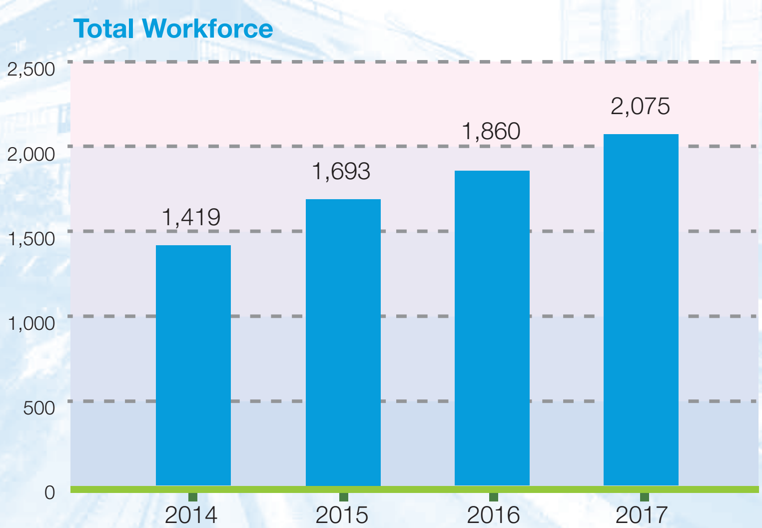
The Group recognizes human capital as one of our most important assets. Having an inclusive, engaged and skilled workforce is critical to our success. By upholding fair employment practices and growing the capabilities of our workforce, we aim to create a work culture that can motivate and empower every employee to be innovative and professional.

We respect the fundamental rights of our employees and is committed to building an equal, diverse and inclusive working environment, and providing equal opportunities in all aspects of employment regardless of gender, race, ethnic origin, marital status, education or disabilities. In 2017, there was no known report of any incidence of discrimination by our employees in the Group.

The Group has complied with regional legislative regulations regarding labor standards. We prohibit child, forced or compulsory labor in any of our operations. We extended these requirements to our supply chain to ensure they adhere to all legal standards as well. Self-audit and ad-hoc assessments are conducted regularly to review the employment practices and to detect and rectify any control deficiencies. In 2017, no operation was identified as having significant risk of child or forced labor.

Employees Composition

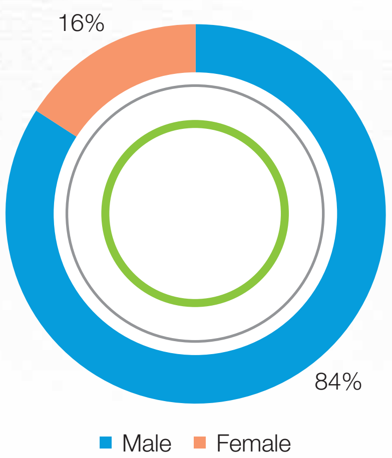
To cope with our business expansion, the total number of employees of Hong Kong staff has reached 2,075 in 2017, an increase of nearly 12% compared to previous year.



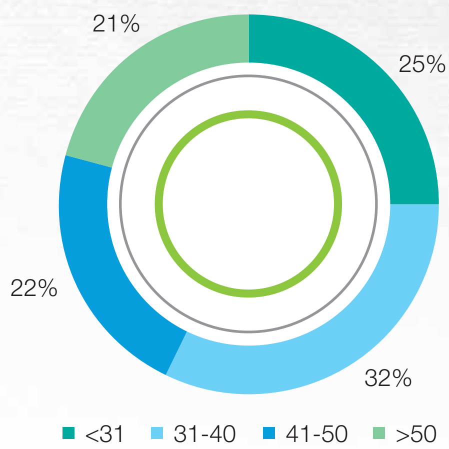
Environmental, Social and Governance Report

The majority of our new hires are in Hong Kong, representing 99% of total new employees, while the rest are employed in other regions. Gender diversity is a particular challenge in construction industry. In 2017, 16% of our total workforces are female and 84% are male. The workforce is evenly distributed among all age groups. There are six professional types in our hierarchy while the staff at supervisory and operational levels account for the majority of the total workforce.

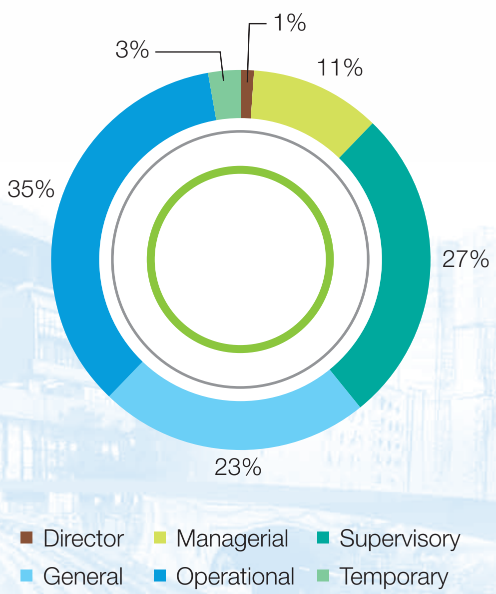
Gender Profile



Age Profile



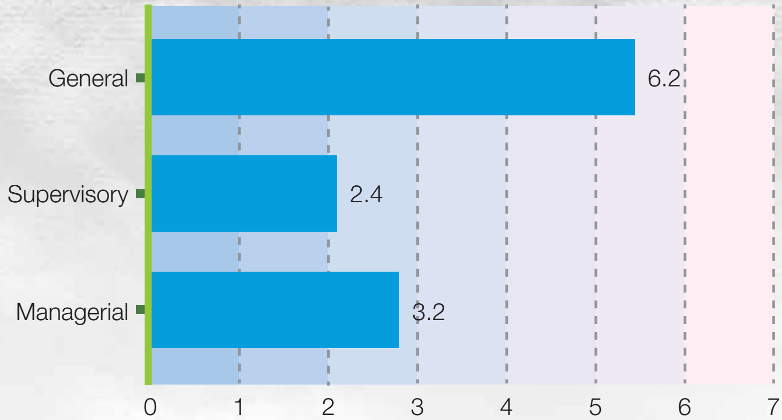
Professional Profile



Training and Development

The Group continues to nurture employees in all levels by providing them opportunities to strengthen their job-related skills as well as managerial, supervisory and personal development skills. In addition to the in-house training programs and training sponsorship for external courses, the Company has launched a new eLearning platform on 16 November 2017, which provides series of tailor-made online learning programs to our staff. The feedback from our staff is positive that it is user friendly, convenient and of good quality. New programs would be launched regularly to enable staff to have channels for continuous professional development.

2017 Average Training hours
(by professional profile)



In 2017, enhancements were made to various career development programs including Technical Apprentice Training Scheme, Graduate Engineer Training Scheme and Assistant Quantity Surveyor Professional Training Program: Earn & Learn Subsidies applied for apprentices, three more disciplines extended to the apprentice training, and the rotation arrangement for Graduate Engineers broadened.

To facilitate leadership development, senior managers were provided a self-leadership assessment profile with individual coaching session to assist them to formulate plans for self-development. Eight senior staff were invited to attend the High Potential Leadership Program of Hong Kong University of Science and Technology from August to October 2017.

Occupational Safety and Health

Occupational Health and Safety ("OHS") is always the top priority of our operation. Recognizing the inherent risks in our daily operations, we conduct regular risk assessment so as to provide our employees with a safe and healthy working environment. To achieve continuous improvements of our safety performance, we adopt a risk-based control approach to ensure all working procedures are compliance to laws, regulations and risk assessment. In 2017, the Group recorded an improvement in accident frequency rate from 0.21 in 2016 to 0.13 per 100,000 man-hours worked, against the target rate of 0.25.

With the implementation of our comprehensive Safety Management System ("SMS"), we are committed to achieve the highest practical standard of OHS in collaboration with our employees, clients, sub-contractors and other stakeholders. The Management Safety Committee composed of top management and project-in-charges has been set up to carry out the functions of implementing and reviewing measures of the SMS and related policies. According to the SMS, relevant responsibilities and authorities are allocated from the committees to all staff according to their functions.

Control Mechanisms

The Group has implemented and maintained various safety control mechanisms in order to effectively monitor, prevent, reduce or remove the risks associated with site work employees and sub-contractors.

In view of the increasing machinery-related industrial accidents, our company has introduced the Plant Pre-delivery Checking and Repairing System in 2017 to tighten the control of machinery being used and minimize the risk of mechanical failure to our employees. All loadshifting machineries and cranes have to be checked by internal Plant Department prior deliver to sites for use; risk assessment has to be carried out and working permit has to be issued prior any on-site plant repairing works.

Foster Safety Culture

"I Care" Safety Promotion Campaign

We believe fostering a positive safety culture could uplift the safety awareness of our employees. In view of this, our company has developed various corporate safety campaigns and initiatives in addition to the regular safety promotion activities held at sites.

In 2017, the Group has fully launched a safety promotion campaign — 'I Care'. All site safety personnel including clients' representatives, Project-in-charges, engineers, frontline supervisors and workers were invited to sign the Declaration to show their commitment to OSH at sites; different targets have been set for different levels of staff including Directors to cultivate their good OSH habits.

The campaign was a success with our employees' and clients' support, and contributed to the decrease of the accident frequency rate in 2017. We expect the "I Care" safety culture would be more cemented in 2018.

Promoting Smoke-free Construction Sites

The Company has always put emphasis on the health of our staff. To promote healthy living and reduce the risk of on-site fire caused by cigarette butts, we have introduced an innovated "Smoking Cessation Incentive Scheme" at sites to encourage employees to quit smoking.

Participants were awarded prizes after completion of all smoking cessation goals within six months. About 70% of participants have reduced or eventually quitted smoking. The results were encouraging and our innovative smoke-free initiatives was being recognized that we have won the Gold Award and the Most Creative Smoke-Free Policy Award at the Hong Kong Smoke-free Leading Company Awards 2016 organized by the Hong Kong Council on Smoking and Health.

We will continue to allocate resources and work out more innovative measures to promote a smoke-free culture and to build smoke-free sites.

BUILDING TOWARDS A BETTER ENVIRONMENT

To eliminate the environmental impacts arising from our operation is one of our long-term goals. The Group is committed to protecting the environment and natural resources. We believe we can contribute to build a sustainable future.

The Group services cover whole project life-cycle. We realize that the possible environmental impact will be arisen from operations. Thus, we have strictly implemented the statutory environmental requirement and Environmental Management System (EMS) in accordance with ISO 14001. The system is monitored and reviewed regularly to ensure that we are on the right track in pursing the best practices. We closely communicate our employees, suppliers, subcontractors and clients to keep track of the quality of operations. We strive to improve our environmental technology to eliminate the impact continuously and aim to integrate sustainable development concepts into every part of our operations.

Pollution Abatement

Owing to the wide variety of our projects, each project is required to develop the project-specific Environmental Management Plan ("EMP"), overseen by the project environmental management team. EMP detailed the mitigation measures to manage and control on-site environmental impacts, including, but not limited to, air quality, noise and water quality impacts.

Air Quality Management

In 2017, we continued our effort to reduce dust emission arising from the operations. We have used regulated machines with approved label in a prescribed format issued by Environmental Protection Department at our sites to ensure the machines were compliant with the prescribed emission standards. In addition, the machines were monitored and maintained regularly to prevent the dark smoke emission during operation and improve air quality and to protect public health.

Noise Management

As most of our projects are carried out in urban areas and some are in the close proximity of residential areas and schools, noise nuisance to our community is inevitable. Recognizing the importance of noise mitigation, we strictly follow the requirements under related regulations, striving for best practices to minimize the impact to our neighborhoods. As a first priority, we adopt preventive measures and the quiet engineering method to eliminate noise at the source. To reduce noise levels and avoid disturbing the public, noise-screening features have been installed.

We enhance the mutual understanding through regular communications with neigbourhoods: District Councils, nearby residential representatives, schools and other noise sensitive receivers. During the regular meetings, we explain to them our construction methodology and schedule, and collect their feedback, in response to which we may reschedule our construction program and avoid noisy work during sensitive hours.

Effluent and Water Management

A large amount of waste-water will be generated from the construction works. We would make sure each project has adopted comprehensive drainage plan and system to ensure the quality of effluent is complied with the terms and conditions stipulated in the water license upon discharge to gully.

In addition, we encourage our sites to adopt water conservation measures such as collecting wheel washing water or rainy water for water spraying and irrigation purposes, which can enhance the value of wastewater and reduce the water usage.

BUILDING TOWARDS A BETTER ENVIRONMENT (Continued)

Chemical Waste Management

A variety of chemicals were being used during construction. Thus, we have arranged and organized chemical drills regularly to demonstrate the clear and correct chemical handling procedures for workers. We have applied a Chemical Waste Producer Licence prior work commencement in accordance with the legal requirements. The chemical waste will be temporary stored in a container and collected by a license chemical collector to the designated disposal site.

Green Building

Green Building is a trend of construction. We have made efforts to add green elements to new buildings to reduce the environmental impact and improve environmental quality, such as using timber from Forest Stewardship Council for temporary work, using solar energy to reduce the energy exhaust and reusing the wastewater in-situ. In 2017, we have actively involved in a number of construction which need to comply with the standard of BEAM Plus. We strive to achieve the targets of BEAM Plus which can help to minimize the usage of resources including Site Aspect, Materials Aspect, Energy Use, Water Use, Indoor Environmental Quality and Innovations and Additions.

Energy Efficiency

Through implementing green management, we can utilize our resources more effectively by reducing waste and saving energy, this in turn improves our working environment. Our waste management strategy is - Prevent, Reuse and Recycle.

We have adopted a number of environmental and energy saving measures at head office such as promoting paper recycling and fixing reminder label related to energy saving next to the electrical switch.

To optimize the benefit of sustainable resources, we have implemented a variety of measures during the construction stage to reduce unnecessary wastage, such as adopting the solar energy for lighting, flashing lantern at night and using the Grade 1 products such as air conditioners, refrigerating appliances and compact fluorescent lamps for energy and cost saving.

Carbon Reduction

One of the causes of global warming is the use of fossil fuels. Global greenhouse gas concentrations will rise during mechanism operation. In view of this, we use non-fossil fuels to reduce carbon emissions.

In addition, priority will also be given to materials within a distance of 800km from the sites to reduce the carbon dioxide produced during transportation.

BUILDING TOWARDS A BETTER ENVIRONMENT (Continued)

Sustainable Use of Resources and Waste Management

A large amount of waste has been generated from daily construction work. However, our existing landfills will be exhausted by 2020. To reduce the using of landfill, we encourage to establish a Waste Management Plan prior to work commencement. We will estimate the quantities of waste to be reused in-situ or returned to stock in centralized and exchange with other sites to minimize material wastage. In addition, we have set up waste recovery target and encouraged colleagues to participate.

The table below demonstrates how we integrate our resource and waste management system into our project life cycle.

Project Cycle	Actions Taken
Design and Planning Stage	• Accurately estimate the construction material need by using software and detailed calculation • Review conforming design provided by clients, seek opportunities for cost saving and alternative design • Identification of alternative disposal ground • Fully utilization of treated contaminated soil and reuse on-site
Construction Stage	• Select reuse or salvaged materials • Utilize surplus materials where possible • Transform excavated rock materials into aggregates • Consider environmentally preferable materials, i.e., sustainable timber certified by FSC or AFPA. • Properly design site layout and logistics plan, identify suitable storage area to avoid systematic disposal • Cross site materials transfer to avoid unnecessary disposal • Properly control and handle all chemical wastes in all stages of storage, collection, transportation and disposal

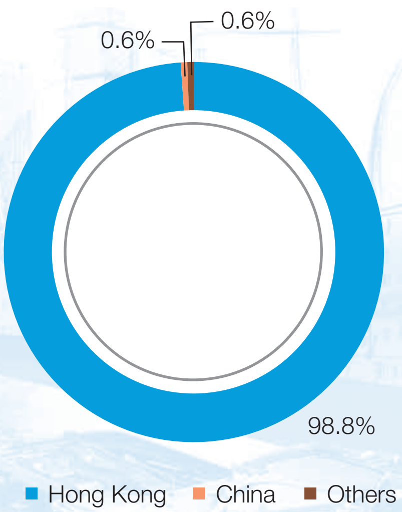
MANAGING OUR SUPPLY CHAIN

We recognized the management of our suppliers and sub-contractors play an important role in the development and ongoing success of our business. To secure the delivery of excellent projects for our clients, we make our efforts to ensuring our supply chain's responsibility and their high-standard services.

The Group's supply chain network involves 995 suppliers which are located in Hong Kong. The way we collaborate with them has a significant impact on our sustainability performance.

In view of this, we have introduced our sustainability policy to our suppliers and sub-contractors through the conditions we set out in the contract statements and required them to strictly follow the guidelines. Sub-contractors and suppliers are evaluated every six-months and will be disqualified and removed from the selection list if any non-compliance is observed.

Allocation of Suppliers by Geographical Region



MANAGING OUR SUPPLY CHAIN (Continued)

Selection Criteria

Our goal is to build a responsible and sustainable supply chain and in turn reduce risks for the Group and our clients. We set clear company procedures and standing instructions in selecting our suppliers and sub-contractors. Prior to any procurement and subletting, performance assessments are conducted on potential suppliers and subcontractors on a competitive basis. The assessment criteria include assurance of stable supply, quality and cost, etc. We also select and work with these meeting standards of ethical conduct, human rights, health and safety and environmental management.

Management Approach

To cope with the uniqueness of different projects, each project is required to develop a project-based Sub-contractor Management Plan to detail the measures and strategies in managing our sub-contractors.

We make sure that our suppliers and sub-contractors have sufficient knowledge of our core values and comply with our ESG governance policies as well as relevant requirement i.e. ISO 9001:2008 Quality Management System. We provide technical assistance and supervision to suppliers for quality assurance and educate them with anti-corruption terms. Meanwhile, we encourage feedback from our suppliers and sub-contractors, which may help us in understanding their needs and facilitate us in formulating the future policy.

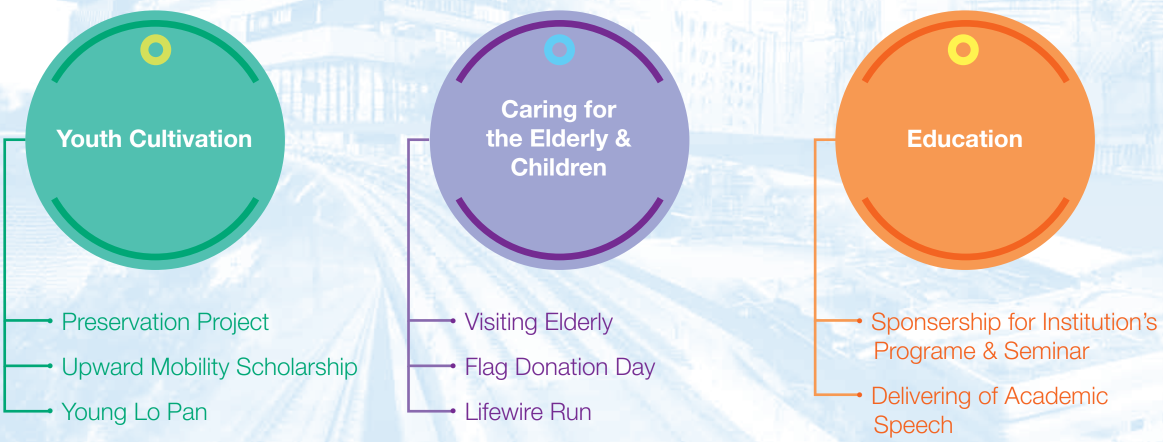
CARING FOR OUR COMMUNITY

We believe mixing business and ethics towards sustainability will help us to achieve balance between social responsibility and corporate profitability. With a strong sense of reciprocating to the community, we consider it is our responsibility to serve the society.

Corporate Social Responsibility Policy

Our long-term success is built upon commitment with integrity and responsibility towards our stakeholders and the local communities. Witnessing and actively involved in the infrastructure development of Hong Kong, we are committed to ensuring that our business is conducted according to rigorous ethical and legal standards. We have been continuously investing our best efforts to promote long term community voluntary works to spread the spirit of 'caring for the community' among staff families, and to promote the positive value of self-commitment, building towards a harmonious community.

We strive to be a good corporate citizen where we operate, by means of working in partnership with local communities and contributing resources to charity works and educational opportunities. We mainly contributed in three areas including Youth Cultivation, Education and Caring for the Elderly and Children.



CARING FOR OUR COMMUNITY (Continued)

Youth Cultivation

Youth Club - Ma On Shan Villages Mining Preservation Project

To promote cultural preservation and nurture the youths, Build King Youth Club, VolTra and Evangelical Lutheran Church of Hong Kong had organized a Revitalization of Grace Youth Camp at Ma On Shan Village in 2017.

Through stories and explorative activities, the participants recognized the importance of inheritance of the social and cultural values.

Young Lo Pan Award

We nurture young engineers to be the future leaders in construction industry. We sponsored this award to appreciate their talents and outstanding performance dedication in the construction industry.

Upward Mobility Scholarship

To help youths from less privileged families develop their full potential without being constrained by their present socio-economic status, we sponsored this Scholarship to improve their learning environment and provide them with better learning opportunities.

Caring for the Elderly & Children

Visiting Elderly at Po Leung Kuk Elderly Centre

Caring for the elderly, especially those with the mental and health problems, has become an increasing concerned issue in Hong Kong. To build a warm environment and to provide assistance to the elderly in need, we have established a long-term partnership with Po Leung Kuk Elderly Centre.

Our volunteers visited the Elderly Centre to understand their needs and offer assistance when necessary. The volunteers would also send gifts, prepare delicious food and organizing a wide range of activities, e.g. Christmas Party, to deliver our regards to the elderly.

CARING FOR OUR COMMUNITY (Continued)

Flag Donation Day

In 2017, we supported the Flag Day of Po Leung Kuk to assist in raising funds for the elderly, disabled and low-income families. Donation boxes have been placed in our head offices and site offices to raise funds from our employees.

Lifewire Run

We care for the children requiring medical attention and treatments. In 2017, we joined the charity event - Lifewire Run. Through the 1km, 3km and 10km races, we raised funds to help children with special medication needs.

PERFORMANCE DATA SUMMARY 2017

	Environment	
Environment	***Total Resources Consumption***	
	Electricity (kWh)	14,651,434.01
	Petrol (litres)	375,621.17
	Diesel (litres)	6,808,866.37
	Water (m^3)	856,481.51
	Types of emissions	
	NOx emissions (g)	28,314,106.34
	PM emissions (g)	2,068,990.68
	SOx emissions (g)	115,144.38
	Greenhouse Gases Emissions	
	Total emissions (tCO_2e)	31,399.64
	Scope I (tCO_2e)	18,834.54
	Scope II (tCO_2e)	11,574.63
	Scope III (tCO_2e)	990.47
	Waste	
	Hazardous waste (tonnes)	7,800.00
	Non-hazardous waste (tonnes)	148,412.73
	Paper	
	Paper Consumption (tonnes)	102.85
	Paper Recycled (tonnes)	21.40

PERFORMANCE DATA SUMMARY 2017 (Continued)

	Employment	
Social	***Total Workforce***	
	by Age	
	<31	530
	31-40	656
	41-50	459
	>50	430
	by Gender	
	Female	333
	Male	1,742
	by Professional Profile	
	Director	11
	Managerial	234
	Supervisory	554
	General	473
	Operational	728
	Temporary	75
	Employee Turnover	
	by Age	
	<31	139
	31-40	82
	41-50	35
	>50	23
	By Gender	
	Male	213
	Female	66
	By Region	
	Hong Kong	272
	PRC	7

PERFORMANCE DATA SUMMARY 2017 (Continued)

Social	***Occupational Health and Safety***	
	No. of Work-related injuries	22
	Accident Frequency Rate (per 100,000 man-hours)	0.13
	Accident Frequency Rate (per 1,000 workers)	4.51
	Training and Development	
	Average Training Hours	3.6
	Average Training hours Completed per Employee	
	By Gender	
	Male	3.3
	Female	5.1
	By Professional Profile	
	Managerial	3.8
	Supervisory	2.5
	General	6.3
	Percentage of Employees Trained	
	By Gender	
	Male	40.4%
	Female	54.4%
	By Category	
	Managerial	60.1%
	Supervisory	38.3%
	General	53.5%

HKEX ESG CONTENT INDEX

KPIs	HKEx ESG Reporting Guide Requirements	Section and Remarks
A.Environmental		
Aspect A1	**Emissions**	
General disclosure	Information on: (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.	Environment
KPI A1.1	The types of emissions and respective emissions data.	Environmental – Pollution Abatement
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity	Performance Data Summary 2017
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity	Performance Data Summary 2017
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity	Performance Data Summary 2017
KPI A1.5	Description of measures to mitigate emissions and results achieved	Environment – Carbon Reduction
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environment – Sustainable Use of Resources and Waste Management
Aspect A2	**Use of resources**	
General disclosure	Policies on efficient use of resources including energy, water and other raw materials.	Environment – Energy Efficiency
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity	Performance Data Summary 2017
KPI A2.2	Water consumption in total and intensity	Performance Data Summary 2017
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Environment – Energy Efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environment – Effluent and Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not Applicable

HKEX ESG CONTENT INDEX (Continued)

KPIs	HKEx ESG Reporting Guide Requirements	Section and Remarks
Aspect A3	**The environment and natural resources**	
General disclosure	Policies on minimizing the issuers' significant impact on the environment and natural resources.	Environment - Sustainable Use of Resources and Waste Management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment - Sustainable Use of Resources and Waste Management
B.Social		
Aspect B1	**Employment and Labor Practices**	
General disclosure	Information on: (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, and other benefits and welfare.	People
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	People – Employees Composition; Performance Data Summary 2017
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Performance Data Summary 2017
Aspect B2	**Health and safety**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	People – Occupational Health & Safety
KPI B2.1	Number and rate of work-related fatalities.	Performance Data Summary 2017
KPI B2.2	Lost days due to work injury.	Not Applicable
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	People – Occupational Health & Safety

HKEX ESG CONTENT INDEX (Continued)

KPIs	HKEx ESG Reporting Guide Requirements	Section and Remarks
Aspect B3	**Development and training**	
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	People – Training and Development
KPI B3.1	The percentage of employees trained by gender and employee category.	People – Training and Development; Performance Data Summary 2017
KPI B3.2	The average training hours completed per employee by gender and employee category.	Performance Data Summary 2017
Aspect B4	**Labour standards**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	People
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	People
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	People
Aspect B5	**Supply chain management**	
General disclosure	Policies on managing environmental and social risks of the supply chain.	Value Chain - Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Value Chain - Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Value Chain - Supply Chain Management

HKEX ESG CONTENT INDEX (Continued)

KPIs	HKEx ESG Reporting Guide Requirements	Section and Remarks
Aspect B6	**Product responsibility**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	ESG Management Approach and Supply Chain Management
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not Applicable
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not Applicable
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not Applicable
KPI B6.4	Description of quality assurance process and recall procedures.	Not Applicable
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Not Applicable
Aspect B7	**Anti-Corruption**	
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	ESG Management Approach- Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	ESG Management Approach-Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	ESG Management Approach-Anti-corruption
Aspect B8	**Community investment**	
General disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community – Corporate Social Responsibility Policy
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community

Deloitte. 德勤

TO THE SHAREHOLDERS OF BUILD KING HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Build King Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 64 to 130, which comprise the consolidated statement of financial position as at 31 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 31 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 ("HKSAs") 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.

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.

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work	
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. 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.	Our procedures in relation to the recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work included: • 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 of the Group 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;

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue and costs from construction contracts and amounts due from (to) customers for contract work (Continued)	• Verifying whether value of work has been reasonably recognised as contract revenue, by performing the following procedures on a sample basis: (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; • Checking the 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.

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

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables and retention receivables	
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 23 to the consolidated financial statements, trade receivables and retention receivables of the Group carried at HK$1,102,330,000 and HK$454,921,000, respectively, which represents 29.5% and 12.2% of the Group's total assets, respectively. 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.	Our procedures in relation to the recoverability of trade receivables and retention receivables included: • 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.

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.

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

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 HKSAs 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.

As part of an audit in accordance with HKSAs, 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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.

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
8 March 2018

Consolidated Statement of Profit or Loss

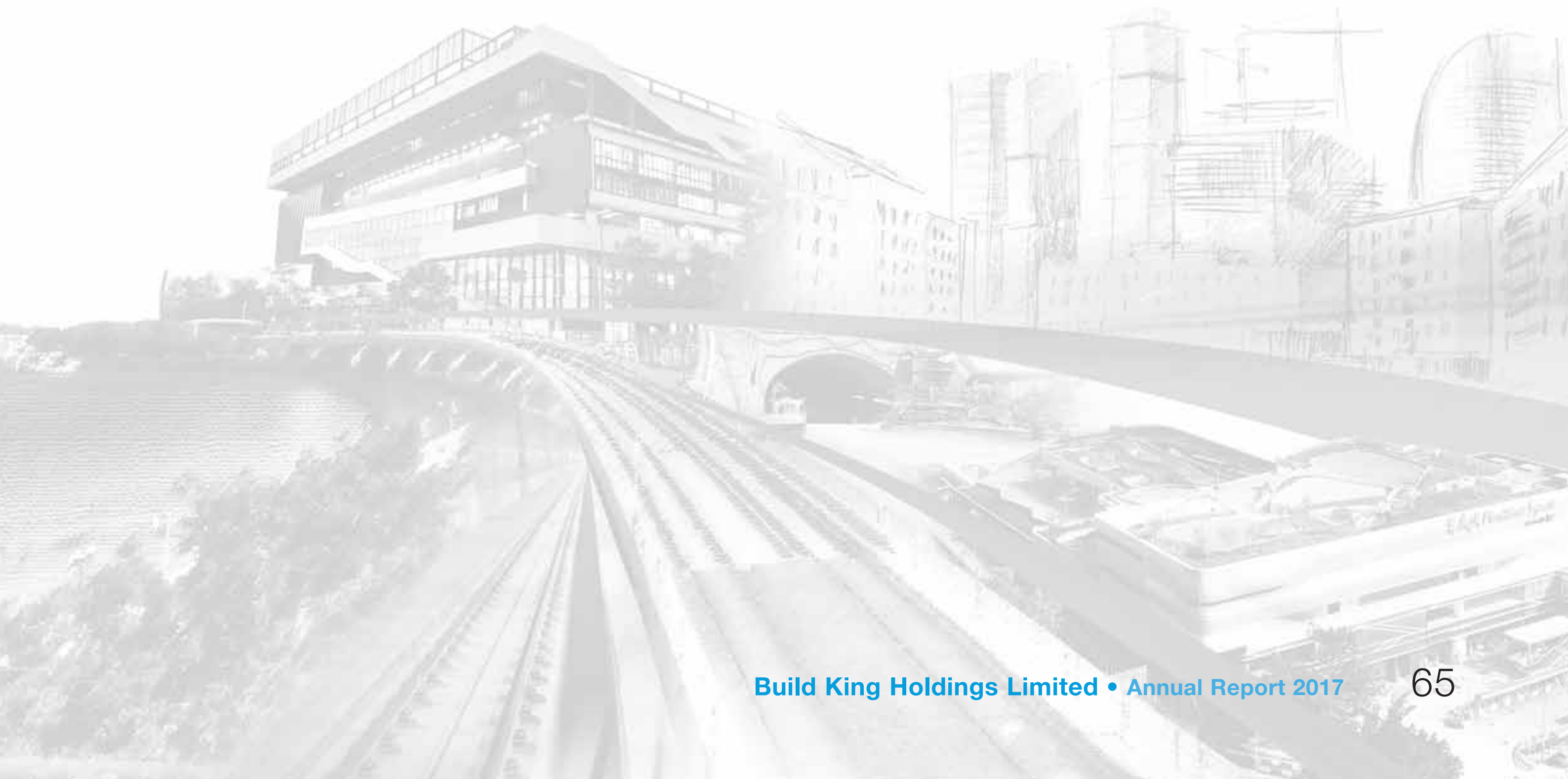
For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**5,986,382**	4,871,491
Cost of sales		**(5,523,633)**	(4,499,403)
Gross profit		**462,749**	372,088
Investments and other income	7	**9,152**	9,971
Increase (decrease) in fair value of held-for-trading investments		**20,637**	(1,829)
Administrative expenses		**(225,639)**	(196,377)
Finance costs	8	**(18,950)**	(13,857)
Share of results of joint ventures		**8,654**	7,512
Share of results of associates		**519**	569
Profit before tax	9	**257,122**	178,077
Income tax expense	12	**(70,048)**	(28,531)
Profit for the year		**187,074**	149,546
Profit for the year attributable to:			
Owners of the Company		**184,230**	150,506
Non-controlling interests		**2,844**	(960)
		187,074	149,546
		HK cents	HK cents
Earnings per share	14		
– Basic		**14.8**	12.1

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year	**187,074**	149,546
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**9,603**	(6,632)
Total comprehensive income for the year	**196,677**	142,914
Total comprehensive income attributable to:		
Owners of the Company	**193,521**	144,089
Non-controlling interests	**3,156**	(1,175)
	196,677	142,914



Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	15	**385,899**	365,251
Intangible assets	16	**62,851**	62,012
Goodwill	17	**30,554**	30,554
Interests in joint ventures	19	**129,519**	58,518
Interests in associates	20	**7,968**	–
Other financial asset	21	**42,909**	41,128
		659,700	557,463
Current assets			
Amounts due from customers for contract work	22	**253,443**	324,351
Debtors, deposits and prepayments	23	**1,681,032**	1,287,743
Amounts due from fellow subsidiaries	24	**1,149**	–
Amounts due from associates	24	**7,719**	7,528
Amount due from a joint venture	24	**–**	321
Amounts due from other partners of joint operations	24	**134,934**	39,643
Held-for-trading investments	25	**45,419**	24,782
Tax recoverable		**7,338**	13,395
Pledged bank deposits	26	**37**	101
Bank balances and cash	26	**949,029**	826,230
		3,080,100	2,524,094
Current liabilities			
Amounts due to customers for contract work	22	**410,053**	637,795
Creditors and accrued charges	27	**2,068,963**	1,371,250
Amount due to an intermediate holding company	28	**16,466**	13,434
Amounts due to fellow subsidiaries	28	**–**	4,315
Amount due to a joint venture	28	**1,142**	1,142
Amounts due to other partners of joint operations	28	**61,710**	70,795
Amounts due to non-controlling interests	28	**3,094**	3,094
Amount due to an associate	29	**16,580**	15,475
Tax payable		**60,733**	20,894
Bank loans – due within one year	30	**235,821**	242,761
		2,874,562	2,380,955
Net current assets		**205,538**	143,139
Total assets less current liabilities		**865,238**	700,602

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Capital and reserves			
Ordinary share capital	31	**124,188**	124,188
Reserves		**585,367**	422,893
Equity attributable to owners of the Company		**709,555**	547,081
Non-controlling interests		**3,005**	(251)
Total equity		**712,560**	546,830
Non-current liabilities			
Deferred tax liabilities	33	**5,750**	5,750
Obligations in excess of interests in associates	20	**14,527**	15,604
Amount due to an associate	29	**3,701**	4,238
Bonds	34	**128,700**	128,180
		152,678	153,772
		865,238	700,602

The consolidated financial statements on pages 64 to 130 were approved and authorised for issue by the Board of Directors on 8 March 2018 and are signed on its behalf by:

Zen Wei Peu, Derek
Chairman

Chang Kam Chuen, Desmond
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company									
	Ordinary share capital	**Share premium**	**Translation reserve**	**Other reserve**	**Special reserve**	**Asset revaluation reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016	124,188	14,186	8,247	(943)	(63,141)	4,290	334,793	421,620	724	422,344
Profit (loss) for the year	–	–	–	–	–	–	150,506	150,506	(960)	149,546
Exchange differences arising on translation of foreign operations	–	–	(6,417)	–	–	–	–	(6,417)	(215)	(6,632)
Total comprehensive (expense) income for the year	–	–	(6,417)	–	–	–	150,506	144,089	(1,175)	142,914
Disposal of partial interest in a subsidiary without losing control (note 44)	–	–	–	–	–	–	–	–	200	200
Dividend paid	–	–	–	–	–	–	(18,628)	(18,628)	–	(18,628)
At 31 December 2016	**124,188**	**14,186**	**1,830**	**(943)**	**(63,141)**	**4,290**	**466,671**	**547,081**	**(251)**	**546,830**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**184,230**	**184,230**	**2,844**	**187,074**
Exchange differences arising on translation of foreign operations	**–**	**–**	**9,291**	**–**	**–**	**–**	**–**	**9,291**	**312**	**9,603**
Total comprehensive income for the year	**–**	**–**	**9,291**	**–**	**–**	**–**	**184,230**	**193,521**	**3,156**	**196,677**
Disposal of partial interest in a subsidiary without losing control (note 44)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**100**	**100**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(31,047)**	**(31,047)**	**–**	**(31,047)**
At 31 December 2017	**124,188**	**14,186**	**11,121**	**(943)**	**(63,141)**	**4,290**	**619,854**	**709,555**	**3,005**	**712,560**

Notes:

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Operating activities			
Profit before tax		**257,122**	178,077
Adjustments for:			
Finance costs		**18,950**	13,857
Amortisation of intangible assets		**1,459**	1,352
Depreciation of property, plant and equipment		**9,496**	26,125
Share of results of joint ventures		**(8,654)**	(7,512)
Share of results of associates		**(519)**	(569)
Gain on disposal of property, plant and equipment		**–**	(360)
(Increase) decrease in fair value of held-for-trading investments		**(20,637)**	1,829
Dividends from held-for-trading investments		**(2,428)**	(1,634)
Interest on bank deposits		**(871)**	(226)
Interest on other receivable		**(987)**	(1,128)
Interest on other financial asset		**(1,149)**	(1,111)
Operating cash flows before movements in working capital		**251,782**	208,700
(Increase) decrease in other financial asset		**(1,781)**	3,496
Decrease in amounts due from customers for contract work		**183,765**	174,412
Increase in amounts due from fellow subsidiaries		**(1,149)**	–
Increase in debtors, deposits and prepayments		**(392,187)**	(336,311)
Decrease in amounts due to customers for contract work		**(227,742)**	(26,995)
Increase in creditors and accrued charges		**697,713**	131,701
Cash generated from operations		**510,401**	155,003
Interest on other financial asset		**1,149**	1,111
Interest on bank deposits received		**1,081**	561
Income taxes paid		**(24,152)**	(21,358)
Net cash from operating activities		**488,479**	135,317
Investing activities			
Interest on other receivable received		**–**	589
Purchases of property, plant and equipment		**(144,655)**	(232,132)
(Advances to) repayments from other partners of joint operations		**(104,376)**	43,399
Repayment from a joint venture		**321**	–
(Advances to) repayments from associates		**(191)**	78
Dividends from held-for-trading investments		**2,428**	1,634
Withdrawal (placement) of pledged bank deposits		**64**	(21)
Proceeds from disposal of property, plant and equipment		**1,469**	1,549
Cash contributions to joint ventures	19	**(62,347)**	(51,006)
Acquisition of interest in an associate	20	**(8,526)**	–
Net cash used in investing activities		**(315,813)**	(235,910)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	NOTE	2017 HK$'000	2016 HK$'000
Financing activities			
New banks loans raised		**145,310**	179,338
Repayment of bank loans		**(152,250)**	(33,117)
Interest paid		**(17,862)**	(12,834)
Repayments to fellow subsidiaries		**(4,315)**	(1,191)
Advances from an intermediate holding company		**3,032**	2,034
Bonds raised, net		**–**	13,720
Dividend paid		**(31,047)**	(18,628)
Proceeds from disposal of partial interest in a subsidiary without losing control	44	**100**	200
Net cash (used in) from financing activities		**(57,032)**	129,522
Net increase in cash and cash equivalents		**115,634**	28,929
Cash and cash equivalents at beginning of the year		**826,230**	800,834
Effect of foreign exchange rate changes, net		**7,165**	(3,533)
Cash and cash equivalents at end of the year		**949,029**	826,230
Represented by:			
Bank balances and cash		**949,029**	826,230

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and joint ventures are set out in notes 46, 20 and 19 respectively.

2. APPLICATION OF NEW AND REVISED 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 in 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 43. 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 43, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs that have been issued but 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 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, 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 value 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

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

HKFRS 9 "Financial Instruments" (Continued)

- 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 as at 31 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 23: 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 outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

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 costs and other items that 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 amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on financial assets. Such further impairment recognised under expected credit loss model would reduce the operating retained profits at 1 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.

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

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

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

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.

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 relate payments. The directors have assessed that as 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 also the potential financial impact.

The directors intend to use the limited retrospective method of transition to HKFRS 15. Apart 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 a significant impact on the financial position and/or financial performance of the Group.

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.

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

HKFRS 16 "Leases" (Continued)

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.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$74,784,000 (2016: HK$59,615,000) as disclosed in note 40. 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 indicated above.

Except as described above, the management anticipates that the application of the above new and revised 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 at the end of each reporting period, as explained in the accounting policies set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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 when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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 interests.

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 interests (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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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 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 value.

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.

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 to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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.

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 these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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 of 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in joint operations

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

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

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

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

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

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

Revenue recognition

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

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.

Construction contract

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Others

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

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

Interest income 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 lease is described in the accounting policy for leasing below.

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction contracts

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

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

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

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

Service concession arrangements

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

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

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

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

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 lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 dollars) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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 an expense when employees have rendered service entitling them to the contributions.

Government grants

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which 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, interests in joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

Intangible assets

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Service concession arrangements

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a post event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the account 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 on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Financial assets at fair value through profit or loss

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

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 fair value through profit or loss 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 exclude any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other financial asset, debtors, amounts due from associates, a joint venture and other partners of joint operations, loans to joint ventures, 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).

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Impairment loss on financial assets

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

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.

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.

Financial liabilities

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

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.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

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

Determining the recoverable amounts of the intangible assets (i.e. construction licenses with indefinite useful lives) arising from the acquisition of a subsidiary, which are included in the consolidated statement of financial position at 31 December 2017 at HK$32,858,000 (2016: HK$32,858,000), requires an estimation of the revenues to be generated in future periods from the acquired construction licenses. The construction projects continue to progress in a satisfactory manner, and the new projects successfully secured by the Group have reconfirmed management's previous estimates of anticipated revenues generated from the acquired construction licenses. However, increased market competition has caused the management to reconsider its assumptions regarding future market share and anticipated margins on these construction projects. Detailed sensitivity analysis has been carried out and the management is confident that the carrying amount of the intangible assets will be recovered in full, even if returns are reduced. This situation will be closely monitored and adjustments will be made in future periods if future market activity indicates such adjustments are appropriate.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair values less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate is applied in order to calculate the present value. As at 31 December 2017, the carrying amount of goodwill is HK$30,554,000 (2016: HK$30,554,000). Details of the recoverable amount calculation are disclosed in note 18.

Income taxes

As at 31 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$404,949,000 (2016: HK$267,220,000) due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profit or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal or further recognition takes place.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Construction contracts

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

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

5. REVENUE

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

6. SEGMENTAL INFORMATION

The Group is mainly engaged in civil engineering work. Information reported to the Group's chief operating decision maker (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on geographical location of its customers including Hong Kong, the People's Republic of China (the "PRC") and the Middle East. No operating segments have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are as follows:

Year ended 31 December 2017

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Segment revenue	5,965,061	21,321	–	5,986,382
Segment profit (loss)	290,903	7,409	(48,641)	249,671
Unallocated expenses				(5,837)
Investments income				2,428
Increase in fair value of held-for-trading investments				20,637
Share of results of joint ventures				8,654
Share of results of associates				519
Finance costs				(18,950)
Profit before tax				257,122

6. SEGMENTAL INFORMATION (Continued)

Year ended 31 December 2016

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Results				
Segment revenue	4,851,588	19,903	–	4,871,491
Segment profit (loss)	179,391	9,956	(1,260)	188,087
Unallocated expenses				(4,039)
Investments income				1,634
Decrease in fair value of held-for-trading investments				(1,829)
Share of results of joint ventures				7,512
Share of results of associates				569
Finance costs				(13,857)
Profit before tax				178,077

There are no inter-segment sales for both years.

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

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

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2017

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Segment assets	2,459,156	104,893	5,566	2,569,615
Interests in joint ventures				129,519
Interests in associates				7,968
Unallocated assets				1,032,698
Total consolidated assets				3,739,800
Liabilities				
Segment liabilities	2,571,600	480	7,115	2,579,195
Obligations in excess of interests in associates				14,527
Unallocated liabilities				433,518
Total consolidated liabilities				3,027,240

For the year ended 31 December 2017

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	144,655	–	–	144,655
Amortisation of intangible assets	–	1,459	–	1,459
Depreciation of property, plant and equipment	9,405	91	–	9,496
Interest income on bank deposits, other receivable and other financial asset	784	2,223	–	3,007

Note: Non-current assets included all non-current assets except intangible assets, goodwill, interests in joint ventures, interests in associates and other financial asset.

6. SEGMENTAL INFORMATION (Continued)

At 31 December 2016

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Assets				
Segment assets	1,963,286	115,077	47,992	2,126,355
Interests in joint ventures				58,518
Unallocated assets				896,684
Total consolidated assets				3,081,557
Liabilities				
Segment liabilities	2,114,803	2,516	1,705	2,119,024
Obligations in excess of interests in associates				15,604
Unallocated liabilities				400,099
Total consolidated liabilities				2,534,727

For the year ended 31 December 2016

	Hong Kong HK$'000	The PRC HK$'000	Middle East HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets (Note)	232,132	–	–	232,132
Amortisation of intangible assets	–	1,352	–	1,352
Depreciation of property, plant and equipment	26,038	87	–	26,125
Gain on disposal of property, plant and equipment	360	–	–	360
Interest income on bank deposits, other receivable and other financial asset	170	2,295	–	2,465

Note: Non-current assets included all non-current assets except intangible assets, goodwill, interests in joint ventures, interests in associates and other financial asset.

6. SEGMENTAL INFORMATION (Continued)

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

- all assets are allocated to reportable segments other than goodwill, interests in joint ventures, interests in associates, held-for-trading investments, certain deposits and prepayments, pledged bank deposits, and bank balances and cash; and

- all liabilities are allocated to reportable segments other than certain creditors and accrued charges, tax payable, bank loans, deferred tax liabilities, obligations in excess of interests in associates, bonds and certain corporate liabilities.

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

	Non-current assets	
	2017	2016
	HK$'000	HK$'000
Hong Kong	**527,410**	437,346
The PRC	**89,298**	77,970
Middle East	**83**	1,019
	616,791	516,335

Note: Non-current assets included all non-current assets except other financial asset.

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

	2017	2016
	HK$'000	HK$'000
Customer A[1]	**2,169,747**	2,147,184
Customer B[1]	**1,601,714**	1,706,405

[1] Revenue from customers located in Hong Kong.

7. INVESTMENTS AND OTHER INCOME

	2017 **HK$'000**	2016 HK$'000
Investments and other income include:		
Dividends from held-for-trading investments	**2,428**	1,634
Gain on disposal of property, plant and equipment	**–**	360
Interest on bank deposits	**871**	226
Interest on other receivable	**987**	1,128
Interest on other financial asset	**1,149**	1,111
PRC Value-Added Tax refund	**1,901**	1,873
Government subsidy	**145**	188

8. FINANCE COSTS

	2017 **HK$'000**	2016 HK$'000
Interest on:		
Bank borrowings	**8,762**	4,327
Bonds	**9,620**	8,993
Imputed interest expense on non-current interest-free amount due to an associate	**568**	537
	18,950	13,857

9. PROFIT BEFORE TAX

	2017 HK$'000	2016 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Auditor's remuneration		
Current year	**1,904**	1,813
Underprovision in prior years	**44**	412
	1,948	2,225
Depreciation of property, plant and equipment	**122,832**	39,920
Less: amount attributable to construction contracts	**(113,336)**	(13,795)
	9,496	26,125
Hire charges for plant and machinery	**144,747**	164,409
Less: amount attributable to construction contracts	**(144,747)**	(164,409)
	–	–
Amortisation of intangible assets	**1,459**	1,352
Net foreign exchange (gains) losses	**(775)**	660
Operating lease rentals in respect of land and buildings	**28,619**	24,746
Less: amount attributable to construction contracts	**(17,274)**	(13,741)
	11,345	11,005
Staff costs:		
Directors' remuneration (note 10)	**15,957**	8,597
Other staff costs	**913,961**	772,272
Retirement benefits scheme contributions, excluding amounts included in directors' remuneration and net of forfeited contributions of HK$980,000 (2016: HK$892,000)	**33,789**	25,404
	963,707	806,273
Less: amount attributable to construction contracts	**(814,646)**	(675,694)
	149,061	130,579

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration paid or payable to each of the seven (2016: eight) directors were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2017				
Executive Directors				
Zen Wei Peu, Derek	–	11,905	18	11,923
Chang Kam Chuen, Desmond	–	2,972	222	3,194
Non-Executive Directors				
David Howard Gem	168	–	–	168
Chan Chi Hung, Anthony	168	–	–	168
Independent Non-executive Directors				
Chow Ming Kuen, Joseph	168	–	–	168
Ho Tai Wai, David	168	–	–	168
Ling Lee Ching Man, Eleanor	168	–	–	168
	840	14,877	240	15,957

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

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Year ended 31 December 2016				
Executive Directors				
Zen Wei Peu, Derek	–	4,563	18	4,581
Chang Kam Chuen, Desmond	–	2,791	217	3,008
Non-Executive Directors				
David Howard Gem	168	–	–	168
Cheng Chi Pang, Leslie (note)	168	–	–	168
Chan Chi Hung, Anthony	168	–	–	168
Independent Non-executive Directors				
Chow Ming Kuen, Joseph	168	–	–	168
Ho Tai Wai, David	168	–	–	168
Ling Lee Ching Man, Eleanor	168	–	–	168
	1,008	7,354	235	8,597

Note: Cheng Chi Pang, Leslie was retired on 19 May 2016.

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

The executive directors' emoluments shown above were 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 or its subsidiaries.

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

There was no arrangement under which a director or a chief executive 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 year.

11. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included two (2016: one) director, details of whose emoluments are set out in note 10 above. The emoluments of the remaining three (2016: four) highest paid individuals were as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**9,838**	12,363
Retirement benefits scheme contributions	**727**	792
	10,565	13,155

Their emoluments were within the following bands:

	Number of employees	
	2017	2016
HK$3,000,001 to HK$3,500,000	**2**	3
HK$3,500,001 to HK$4,000,000	**1**	1

12. INCOME TAX EXPENSE

	2017	2016
	HK$'000	HK$'000
Current tax:		
Hong Kong	**60,197**	23,508
Other jurisdictions	**2,045**	1,644
	62,242	25,152
Underprovision in prior years:		
Hong Kong	**7,564**	1,965
Other jurisdictions	**242**	1,414
	7,806	3,379
	70,048	28,531

Hong Kong Profits Tax is provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits.

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

12. INCOME TAX EXPENSE (Continued)

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

	2017 **HK$'000**	2016 HK$'000
Profit before tax	**257,122**	178,077
Taxation at the applicable rate of 16.5% (2016: 16.5%)	**42,425**	29,383
Tax effect of share of results of joint ventures	**(1,428)**	(1,239)
Tax effect of share of results of associates	**(86)**	(94)
Tax effect of expenses that are not deductible in determining taxable profit	**8,607**	6,273
Tax effect of income that is not taxable in determining taxable profit	**(6,416)**	(3,814)
Underprovision in prior years	**7,806**	3,379
Tax effect of unrecognised tax losses	**64,612**	32,039
Tax effect of utilisation of tax losses previously not recognised	**(41,886)**	(37,401)
Tax effect on concessionary rate	**568**	634
Others	**(4,154)**	(629)
Income tax expense for the year	**70,048**	28,531

13. DIVIDEND

A final dividend for the year ended 31 December 2017 of HK3 cents (2016: HK2.5 cents) per ordinary share, totaling approximately HK$37,256,000 based on 1,241,877,992 ordinary shares (2016: approximately HK$31,047,000 based on 1,241,877,992 ordinary shares) has been proposed by the board of directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. This final dividend has not been included as a liability in the consolidated financial statements.

14. EARNINGS PER SHARE

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

	2017 **HK$'000**	2016 HK$'000
Profit for the year attributable to owners of the Company and earnings for the purpose of basic earnings per ordinary share	**184,230**	150,506

	Number of shares	
	2017 **'000**	2016 '000
Weighted average number of ordinary shares for the purpose of basic earnings per ordinary share	**1,241,878**	1,241,878

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

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Vessels HK$'000	Vessels under construction HK$'000	Total HK$'000
COST							
At 1 January 2016	6,186	246,404	40,406	11,518	80,562	–	385,076
Exchange realignment	–	–	(44)	(37)	–	–	(81)
Additions	2,076	45,102	4,143	1,006	1,665	178,140	232,132
Disposals	(1,757)	(30,393)	(18)	(367)	–	–	(32,535)
At 31 December 2016	6,505	261,113	44,487	12,120	82,227	178,140	584,592
Exchange realignment	–	–	59	50	–	–	109
Additions	1,040	14,941	2,147	1,093	9,139	116,295	144,655
Transfer	–	–	–	–	294,435	(294,435)	–
Disposals	(150)	(12,646)	(2,261)	(155)	–	–	(15,212)
At 31 December 2017	**7,395**	**263,408**	**44,432**	**13,108**	**385,801**	**–**	**714,144**
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	5,228	103,187	35,160	7,420	59,829	–	210,824
Exchange realignment	–	–	(40)	(17)	–	–	(57)
Provided for the year	1,040	28,974	2,729	1,088	6,089	–	39,920
Eliminated on disposals	(1,757)	(29,267)	(6)	(316)	–	–	(31,346)
At 31 December 2016	4,511	102,894	37,843	8,175	65,918	–	219,341
Exchange realignment	–	–	54	30	–	–	84
Provided for the year	1,118	29,169	3,206	1,418	87,921	–	122,832
Eliminated on disposals	(150)	(11,632)	(2,075)	(155)	–	–	(14,012)
At 31 December 2017	**5,479**	**120,431**	**39,028**	**9,468**	**153,839**	**–**	**328,245**
CARRYING VALUES							
At 31 December 2017	**1,916**	**142,977**	**5,404**	**3,640**	**231,962**	**–**	**385,899**
At 31 December 2016	1,994	158,219	6,644	3,945	16,309	178,140	365,251

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold improvements	33 1/3% or over the terms of the relevant leases, whichever is shorter
Plant and machinery	10% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%
Vessels	10% – 50%

As at 31 December 2017, the Group has pledged certain vessels with carrying value in aggregate of HK$139,787,000 to secure a bank loan.

16. INTANGIBLE ASSETS

	Construction licenses HK$'000 (Note a)	Service concession arrangement HK$'000 (Note b)	Total HK$'000
COST			
At 1 January 2016	32,858	39,362	72,220
Exchange realignment	–	(2,169)	(2,169)
At 31 December 2016	32,858	37,193	70,051
Exchange realignment	–	2,932	2,932
At 31 December 2017	**32,858**	**40,125**	**72,983**
AMORTISATION			
At 1 January 2016	–	7,077	7,077
Exchange realignment	–	(390)	(390)
Charge for the year	–	1,352	1,352
At 31 December 2016	–	8,039	8,039
Exchange realignment	–	634	634
Charge for the year	–	1,459	1,459
At 31 December 2017	**–**	**10,132**	**10,132**
CARRYING VALUES			
At 31 December 2017	**32,858**	**29,993**	**62,851**
At 31 December 2016	32,858	29,154	62,012

16. INTANGIBLE ASSETS (Continued)

Notes:

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

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

Various studies including sensitivity analysis and market trends have been carried out by the management of the Group, which supports that the construction licenses have no foreseeable limit to the period over which the construction licenses are expected to generate net cash inflow for the Group. As a result, the construction licenses are considered by the management of the Group as having an indefinite useful life because it is expected to contribute net cash inflow indefinitely. The construction licenses will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars regarding the impairment testing on construction licenses are disclosed in note 18.

(b) A subsidiary of the Company, Wuxi Qianhui Sewage Treatment Co., Ltd. ("Wuxi Qianhui"), entered into a service concession arrangement with the local government whereby Wuxi Qianhui is required to build the infrastructure of a sewage treatment plant phase II (see note 21 for details of sewage treatment plant phase I) and is granted an exclusive operating right for provision of sewage treatment services to the industrial and domestic users in Qian Qiao Zhen, Hui Shan District, Wu Xi City, Jiang Su Province of the PRC for a term of 30 years.

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

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

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

17. GOODWILL

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

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

For the purpose of impairment testing of goodwill arising on the reverse acquisition of the Company in 2004, goodwill has been allocated to the group of underlying CGU which represents the Company and its subsidiaries in existence at the time of reverse acquisition of the Company in 2004.

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

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

19. INTERESTS IN JOINT VENTURES

	2017 **HK$'000**	2016 HK$'000
Cost of investment in unlisted joint ventures	**40,956**	40,956
Loans to joint ventures (note)	**72,397**	10,050
Share of post-acquisition profits and other comprehensive income, net of dividends received	**16,166**	7,512
	129,519	58,518

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

19. INTERESTS IN JOINT VENTURES (Continued)

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

Name of joint venture	Form of business structure	Place of incorporation/ registration/ operation	Attributable equity interest to the Group 2017 %	2016 %	Proportion of voting rights held by the Group 2017 %	2016 %	Principal activities
Hip Hing-Leader JV Limited	Incorporated	Hong Kong	**33.3**	33.3	**33.3**	33.3	Civil engineering
德州恒源熱力有限公司 ("Dezhou Heng Yuan") (note a)	Incorporated	PRC	**49**	49	**50**	50	Central heating
Sunny Harvest Corporation Limited ("Sunny Harvest") (note b)	Incorporated	Hong Kong	**50**	50	**50**	50	Provision of transportation services
Lion Trade Global Limited ("Lion Trade") (note c)	Incorporated	British Virgin Islands ("BVI")	**30**	–	**50**	–	Investment holding

Notes:

(a) In 2016, the Group acquired 49% equity interest in Dezhou Heng Yuan from certain independent third parties 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 is granted an exclusive right to supply heat to the west of Jianhe in Dezhou Economic Development Zone.

(b) In 2016, the Group acquired a total of 50% equity interest in Sunny Harvest from an independent third party at a 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, the Group provided shareholder's loan of HK$10,050,000 to Sunny Harvest. In 2017, the Group has further provided shareholder's loans of HK$13,547,000 and HK$2,000,000 to Sunny Harvest.

(c) Lion Trade was formed by the Group together with a wholly owned subsidiary of Wai Kee in July 2017 with initial paid up capital of US$100. The Group hold 30% equity interest in Lion Trade. In October 2017, shareholders' approval was obtained for the Group to provide shareholder's loan of US$15,000,000 (equivalent to HK$117,000,000) to Lion Trade to invest in a joint venture, which was jointly established with an independent third party and holds a residential property in the United States for rental and capital appreciation purpose. At the end of the reporting period, the Group has provided shareholder's loan of US$6,000,000 (equivalent to HK$46,800,000) to Lion Trade. The Group and Wai Kee jointly control over Lion Trade because unanimous consent from both joint venture partners is required to make decisions in the Board of Directors under the Articles of Association of Lion Trade.

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

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

19. INTERESTS IN JOINT VENTURES (Continued)

Dezhou Heng Yuan

	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)

	2017 **HK$'000**	2016 HK$'000
Revenue	**54,243**	31,666
Profit for the year	**21,545**	15,406
Total comprehensive income for the year	**21,545**	15,406

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

	2017 **HK$'000**	2016 HK$'000
Net assets of Dezhou Heng Yuan	**121,138**	98,990
Proportion of the Group's ownership interests in Dezhou Heng Yuan	**49%**	49%
Carrying amount of the Group's interests in Dezhou Heng Yuan	**59,358**	48,505

19. INTERESTS IN JOINT VENTURES (Continued)

Lion Trade

	2017 HK$'000	2016 HK$'000
Current assets	**10,494**	–
Non-current assets	**146,749**	–
Current liabilities	**(156,059)**	–

	2017 HK$'000	2016 HK$'000
Revenue	**1,685**	–
Profit for the year	**1,184**	–
Total comprehensive income for the year	**1,184**	–

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

	2017 HK$'000	2016 HK$'000
Net assets of Lion Trade	**1,184**	–
Proportion of the Group's ownership interests in Lion Trade	**30%**	–
Carrying amount of the Group's interests in Lion Trade	**355**	–

The financial information of the other joint ventures is immaterial.

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

	2017 **HK$'000**	2016 HK$'000
Cost of investment in unlisted associates	**8,530**	4
Share of post-acquisition losses and other comprehensive income	**(15,089)**	(15,608)
	(6,559)	(15,604)

At 31 December 2017, the Group has contractual obligations to share the net liabilities of certain associates amounting to HK$14,527,000 (2016: HK$15,604,000).

In July 2017, the Group 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 is engaged in civil engineering works.

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

Name of associate	Form of entity	Place of incorporation/ operation	Proportion of nominal value of issued ordinary capital held indirectly by the Company		Proportion of voting rights held by the Group		Principal activities
			2017 **%**	2016 %	**2017** **%**	2016 %	
Hong Kong Landfill Restoration Group Limited ("Hong Kong Landfill")	Incorporated	Hong Kong	**34.5**	34.5	**34.5**	34.5	Civil engineering
Genetron Engineering	Incorporated	Hong Kong	**30**	–	**30**	–	Civil engineering

Summarised financial information of material associates

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

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

20. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Continued)

Hong Kong Landfill

	2017 **HK$'000**	2016 HK$'000
Current assets	**27,969**	24,247
Non-current assets	**36,628**	37,282
Current liabilities	**(93,651)**	(92,738)

	2017 **HK$'000**	2016 HK$'000
Revenue	**30,945**	23,161
Profit for the year	**2,155**	1,138
Total comprehensive income for the year	**2,155**	1,138

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

	2017 **HK$'000**	2016 HK$'000
Net liabilities of Hong Kong Landfill	**(29,054)**	(31,209)
Proportion of the Group's ownership interests in Hong Kong Landfill	**50%**	50%
Carrying amount of the Group's obligations in excess of interests in Hong Kong Landfill	**(14,527)**	(15,604)

Genetron Engineering

	2017 **HK$'000**	2016 HK$'000
Current assets	**34,642**	–
Non-current assets	**1,405**	–
Current liabilities	**(9,486)**	–

20. INTERESTS IN ASSOCIATES/OBLIGATIONS IN EXCESS OF INTERESTS IN ASSOCIATES (Continued)

Genetron Engineering (Continued)

	2017 HK$'000	2016 HK$'000
Revenue	**43,745**	–
Loss for the year	**(1,859)**	–
Total comprehensive expense for the year	**(1,859)**	–

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

	2017 HK$'000	2016 HK$'000
Net assets of Genetron Engineering	**26,561**	–
Proportion of the Group's ownership interests in Genetron Engineering	**30%**	–
Carrying amount of the Group's interests in Genetron Engineering	**7,968**	–

The financial information of the other associate is immaterial.

21. OTHER FINANCIAL ASSET

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

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

Under the service concession arrangement, the local government of Qian Qiao Zhen guarantees a minimum volume of sewage to be treated by the plant with a fixed predetermined rate per tons of sewage. The agreed price will be reviewed annually. Therefore, the service concession arrangement is classified as financial assets. The fair value of the consideration receivable for the construction services rendered under the service concession arrangement is recognised as other financial asset carrying effective interest rate of 2.61% (2016: 2.61%) per annum and repayable over the service concession period of 30 years.

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

	2017 **HK$'000**	2016 HK$'000
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
Less: Progress billings	**(28,466,202)**	(22,103,167)
	(156,610)	(313,444)
Represented by:		
Due from customers included in current assets	**253,443**	324,351
Due to customers included in current liabilities	**(410,053)**	(637,795)
	(156,610)	(313,444)

23. DEBTORS, DEPOSITS AND PREPAYMENTS

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

	2017 **HK$'000**	2016 HK$'000
Trade receivables analysed by age:		
0 to 60 days	**1,089,350**	819,370
61 to 90 days	**200**	884
Over 90 days	**12,780**	9,603
	1,102,330	829,857
Bills receivables	**2,130**	11,013
Retention receivables	**454,921**	331,752
Other debtors, deposits and prepayments	**121,651**	115,121
	1,681,032	1,287,743
Retention receivables:		
Due within one year	**129,691**	61,618
Due more than one year	**325,230**	270,134
	454,921	331,752

23. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Included in other debtors at 31 December 2016 was a loan advanced to an independent third party amounting to HK$22,226,000 by 惠記環保工程(上海)有限公司, a wholly owned subsidiary of the Company. The loan was secured by 51% equity interest in a PRC company, interest bearing at 4.5% fixed rate per annum and was fully repaid in 2017.

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

Included in the Group's trade receivables are debtors with a carrying amount of HK$12,980,000 (2016: HK$10,487,000) which are past due but not impaired as at the end of the reporting period. As there is no significant change in credit quality, the amounts are still considered recoverable.

Ageing of trade receivables which are past due but not impaired

	2017 **HK$'000**	2016 HK$'000
Overdue:		
1-30 days	**200**	884
Over 30 days	**12,780**	9,603
	12,980	10,487

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. The majority of the Group's trade receivables that are neither past due nor impaired have good credit quality with reference to respective settlement history. No allowance for doubtful debt has been made at 31 December 2017 and 2016.

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

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

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

25. HELD-FOR-TRADING INVESTMENTS

	2017 **HK$'000**	2016 HK$'000
Held-for-trading investments stated at fair value:		
– Equity securities listed in Hong Kong	**45,419**	24,782

26. PLEDGED BANK DEPOSITS/BANK BALANCES

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

Bank balances carry average market interest rate ranging from 0.01% to 0.25% (2016: 0.01% to 0.25%) per annum.

27. CREDITORS AND ACCRUED CHARGES

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

	2017	2016
	HK$'000	HK$'000
Trade creditors analysed by age:		
0 to 60 days	**232,484**	168,822
61 to 90 days	**11,856**	10,069
Over 90 days	**41,680**	14,677
	286,020	193,568
Retention payables	**365,023**	306,376
Accrued project costs	**1,376,389**	835,951
Other creditors and accrued charges	**41,531**	35,355
	2,068,963	1,371,250
Retention payables:		
Repayable within one year	**124,257**	89,769
Repayable more than one year	**240,766**	216,607
	365,023	306,376

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

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

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

29. AMOUNT DUE TO AN ASSOCIATE

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

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

30. BANK LOANS

	2017 **HK$'000**	2016 HK$'000
The maturity of the bank loans is as follows:		
Within one year	**180,960**	192,202
In the second year	**54,861**	27,006
In the third to fifth year inclusive	**–**	23,553
	235,821	242,761
Less: Amount due within one year shown under current liabilities	**(235,821)**	(242,761)
Amount due after one year	**–**	–
Secured	**125,154**	155,550
Unsecured	**110,667**	87,211
	235,821	242,761

At the end of the reporting period, all bank loans are variable rate borrowings which carry interest rate ranging from 2.55% to 4.14% (2016: 2.45% to 3.72%) per annum. All bank loans carry interest rate which is repriced every month.

As at 31 December 2017, bank loans that are repayable more than one year after the end of the reporting period but contains a repayment on demand clause with the aggregate carrying amount of HK$54,861,000 (2016: HK$50,559,000) have been classified as current liabilities.

As at the end of the reporting period, the Group has undrawn borrowing facilities of HK$400,851,000 (2016: HK$279,636,000).

31. ORDINARY SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.1 each		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,700,000,000	170,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 January 2016, 31 December 2016 and 31 December 2017	1,241,877,992	124,188

32. CONVERTIBLE PREFERENCE SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
Convertible preference shares of HK$0.01 each		
At 1 January 2016, 31 December 2016 and 31 December 2017	3,000,000,000	30,000
Issued and fully paid of HK$0.01 each:		
At 1 January 2016, 31 December 2016 and 31 December 2017	–	–

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

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

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

33. DEFERRED TAX LIABILITIES

The deferred tax liabilities recognised by the Group represent fair value of intangible assets arising from the acquisition of a subsidiary during the year ended 31 December 2005. There is no movement of balance during each of the two years ended 31 December 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:		
Carried forward indefinitely	**404,949**	267,220

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

34. BONDS

On 5 January 2015 and 28 October 2015, Build King Construction Limited, a wholly owned subsidiary of the Company as the issuer and the Company as guarantor have entered into a placing agreement with a placing agent, an independent third party for the purposes of arranging placees for the issue of bonds in denomination of HK$1,000,000 each up to an aggregate principal amount of HK$100,000,000 and HK$50,000,000 respectively. The bonds will be matured at the date immediately following five years after the first issue of the bonds and carry coupon interest of 7% per annum, accrued daily on a 365 days basis that is payable semi-annually in arrears on every 1 January and 1 July of each calendar year, up to but excluding the maturity date of the bonds. At 31 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.

35. JOINT OPERATIONS

At 31 December 2017 and 2016, the Group had interests in the following principal joint operations:

Name of joint operation	Form of business structure	Place of incorporation/ registration/ operation	Attributable interest to the Group		Principal activities
			2017	2016	
			%	%	
ACC-Leader Joint Venture	Unincorporated	Middle East	**50**	50	Civil engineering
Gammon-Kaden SCL 1111 Joint Venture	Unincorporated	Hong Kong	**30**	30	Civil engineering
China State-Build King Joint Venture	Unincorporated	Hong Kong	**49**	49	Civil engineering
Chun Wo-Leader Joint Venture	Unincorporated	Hong Kong	**51**	51	Civil engineering
CRBC-Kaden Joint Venture	Unincorporated	Hong Kong	**60**	60	Civil engineering
CRBC-CEC-Kaden Joint Venture	Unincorporated	Hong Kong	**32.5**	32.5	Civil engineering
Kaden-Chun Wo Joint Venture	Unincorporated	Hong Kong	**51**	51	Civil engineering
Kier-Kaden-OSSA Joint Venture	Unincorporated	Hong Kong	**35**	35	Civil engineering
Kier-Laing O'Rourke – Kaden Joint Venture	Unincorporated	Hong Kong	**15**	15	Civil engineering
Samsung – Build King Joint Venture	Unincorporated	Hong Kong	**30**	30	Civil engineering
Leader Marine – Yoon & Plac Joint Venture	Unincorporated	Hong Kong	**50**	50	Civil engineering
Hsin Chong-Build King Joint Venture	Unincorporated	Hong Kong	**35**	35	Civil engineering
CRBC-Build King Joint Venture	Unincorporated	Hong Kong	**49**	49	Civil engineering
Build King-Richwell Engineering Joint Venture	Unincorporated	Hong Kong	**60**	–	Civil engineering

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

36. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank loans and bonds disclosed in notes 30 and 34 and equity attributable to equity holders of the Company, comprising issued capital and reserves.

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

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

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 **HK$'000**	2016 HK$'000
Financial assets		
Held-for-trading investments	**45,419**	24,782
Loans and receivables (including cash and cash equivalents)	**2,851,892**	2,177,437
	2,897,311	2,202,219
Financial liabilities		
Amortised cost	**2,536,177**	1,854,684

(b) Financial risk management objectives and policies

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

37. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank loans (see note 30 for details of these borrowings). Although the Group is also exposed to fair value interest rate risk in relation to fixed rate bonds, the Group's policy to keep its borrowings at floating rate of interests would minimise the fair value interest rate risk.

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

Sensitivity analysis

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

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by HK$2,358,000 (2016: HK$2,428,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank loans.

(ii) Other price risk

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

Other price sensitivity analysis

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

If the prices of the respective equity instruments had been 5% higher/lower while all other variables were held constant, the profit for the year ended 31 December 2017 would increase/decrease by HK$2,271,000 (2016: HK$1,239,000) as a result of the changes in fair value of held-for-trading investments.

37. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to its trade receivables. The Group is exposed to concentration of credit risk as the major customers of the Group are the HKSAR Government and certain reputable organisations. The directors of the Company consider that the HKSAR Government and these reputable organisations are financially sound and accordingly no provision is required.

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

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

Liquidity risk

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

Liquidity and interest risk tables

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

37. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate	Repayable on demand or 3 months or less	3-6 months	6-12 months	1-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2017
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2017								
Non-interest bearing	**–**	**1,885,131**	**12,976**	**29,082**	**201,935**	**48,779**	**2,177,903**	**2,171,656**
Fixed interest rate instruments	**7.60**	**–**	**4,550**	**4,550**	**129,073**	**14,618**	**152,791**	**128,700**
Variable interest rate instruments	**3.86**	**215,781**	**20,567**	**–**	**–**	**–**	**236,348**	**235,821**
		2,100,912	**38,093**	**33,632**	**331,008**	**63,397**	**2,567,042**	**2,536,177**

	Weighted average effective interest rate	Repayable on demand or 3 months or less	3-6 months	6-12 months	1-3 years	Over 3 years	Total undiscounted cash flows	Carrying amount at 31.12.2016
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2016								
Non-interest bearing	–	1,260,750	–	2,148	174,996	52,665	1,490,559	1,483,743
Fixed interest rate instruments	7.60	–	4,550	4,550	18,200	134,591	161,891	128,180
Variable interest rate instruments	3.03	163,598	21,006	59,727	–	–	244,331	242,761
		1,424,348	25,556	66,425	193,196	187,256	1,896,781	1,854,684

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

Bank borrowings with a repayment on demand clause are included in the "repayable on demand or 3 months or less" time band in the above maturity analysis. As at 31 December 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$54,861,000 (2016: HK$50,559,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank borrowings of HK$54,861,000 will be repaid in 2018 after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$56,007,000.

37. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

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

The fair values of the financial assets and financial liabilities that are not measured at fair value on a recurring basis have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

38. CONTINGENT LIABILITIES

	2017	2016
	HK$'000	HK$'000
Outstanding tender/performance/retention bonds in respect of construction contracts	**708,694**	602,307

39. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,154**	97,811

40. OPERATING LEASE COMMITMENTS

The Group as lessee

At 31 December 2017, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**31,440**	22,403
In the second to fifth years inclusive	**43,344**	37,212
	74,784	59,615

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

41. RETIREMENT BENEFITS SCHEMES

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

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

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

The amount charged to profit or loss of HK$34,029,000 (2016: HK$25,639,000) represents contributions paid or payable to the retirement benefits schemes by the Group at the rates specified in the rules of the MPF Schemes reduced by the aforesaid amount of forfeited benefits in respect of the current accounting period.

42. RELATED PARTY TRANSACTIONS

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

	2017	2016
	HK$'000	HK$'000
Fellow subsidiaries		
Marine plant hire income	**1,615**	9,933
Purchase of construction materials	**97,289**	89,352
Construction contract revenue	**44,923**	30,726
An associate of ultimate holding company		
Construction contract revenue	**94,797**	–

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

All of the above party transactions constitutes connected transaction or continuing connected transaction which is subject to shareholders' approval, annual review and disclosures requirements under Chapter 14A of the Listing Rules.

42. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**43,165**	35,977
Post-employment benefits	**2,020**	1,769
	45,185	37,746

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

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details 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, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank loans HK$'000 (Note 30)	Bonds HK$'000 (Note 34)	Dividend payable HK$'000	Amount due to an intermediate holding company HK$'000 (Note 28)	Amounts due to fellow subsidiaries HK$'000 (Note 28)	Amount due to an associate HK$'000 (Note 29)	Amount due to a joint venture HK$'000 (Note 28)	Amounts due to non-controlling interests HK$'000 (Note 28)	Total HK$'000
At 1 January 2017	242,761	128,180	–	13,434	4,315	19,713	1,142	3,094	412,639
Financing cash flows	(15,702)	(9,100)	(31,047)	3,032	(4,315)	–	–	–	(57,132)
Interest expenses	8,762	9,620	–	–	–	568	–	–	18,950
Dividend declared	–	–	31,047	–	–	–	–	–	31,047
At 31 December 2017	235,821	128,700	–	16,466	–	20,281	1,142	3,094	405,504

44. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY WITHOUT LOSING CONTROL

On 20 November 2017 and 16 December 2016, the Group disposed of its 10% and 20% equity interest in a wholly-owned subsidiary incorporated in Hong Kong, Build King Interior & Construction Limited ("BKICL"), to a party at a consideration of HK$100,000 and HK$200,000 respectively. The disposal had been accounted for as equity transaction. In the opinion of the directors, the difference between the consideration received and the net asset values disposed of was considered insignificant.

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	HK$'000	HK$'000
Non-current asset		
Unlisted investments in subsidiaries	**60,000**	60,000
Current assets		
Amounts due from subsidiaries	**160,660**	128,437
Bank balances and cash	**16,898**	6,043
Other current assets	**28**	13
	177,586	134,493
Current liabilities		
Other payable	**–**	20
Amount due to an intermediate holding company	**2,514**	2,514
Amounts due to subsidiaries	**95,524**	50,776
	98,038	53,310
Net current assets	**79,548**	81,183
Total assets less current liabilities	**139,548**	141,183
Capital and reserves		
Ordinary share capital	**124,188**	124,188
Reserves	**15,360**	16,995
Total equity	**139,548**	141,183

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

Movement in reserves

	Share premium HK$'000	Contributed surplus HK$'000 (Note)	Other reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	14,186	419,212	115	(415,103)	18,410
Profit and total comprehensive income for the year	–	–	–	17,213	17,213
Dividend paid	–	–	–	(18,628)	(18,628)
At 31 December 2016	**14,186**	**419,212**	**115**	**(416,518)**	**16,995**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**29,412**	**29,412**
Dividend paid	**–**	**–**	**–**	**(31,047)**	**(31,047)**
At 31 December 2017	**14,186**	**419,212**	**115**	**(418,153)**	**15,360**

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

46. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group 2017 %	2016 %	Principal activities
Allied Wise Limited	Hong Kong	Hong Kong	HK$2	**100**	100	Investment holding
Amazing Reward Group Limited	British Virgin Islands ("BVI")	Hong Kong	US$1,000,000	**100**	100	Investment holding
Titan Foundation Limited	Hong Kong	Hong Kong	HK$20,000,000	**100**	100	Civil engineering
Build King Construction Limited ("BKCL")	United Kingdom	Hong Kong	GBP16,072,500	**100**	100	Construction and civil engineering

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group 2017 %	2016 %	Principal activities
Build King Civil Engineering Limited	Hong Kong	Hong Kong	HK$75,200,000 Ordinary shares	**100**	100	Civil engineering
			HK$24,000,000 Non-voting deferred shares	**100**	100	
Build King Management Limited	Hong Kong	Hong Kong	HK$2	**100**	100	Provision of administrative and management services to group companies
Leader Marine Contractors Limited	Hong Kong	Hong Kong	HK$200,000	**100**	100	Marine engineering and provision of transportation services
Leader Marine Cont. L. L.C.	Sharjah, United Arab Emirates ("U.A.E.")	U.A.E.	Dh300,000	**100**	100	First class contracting/ specialised in marine construction
Profound Success Limited	BVI	Hong Kong	US$1	**100**	100	Investment holding
Top Tactic Holdings Limited	BVI	BVI	US$1	**100**	100	Investment holding
Wai Kee China Construction Company Limited	Hong Kong	PRC	HK$10,000,000	**100**	100	Civil engineering

46. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Issued and fully paid/ registered ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Group 2017 %	2016 %	Principal activities
Build King (Zens) Engineering Limited	Hong Kong	Hong Kong	HK$56,000,002 Ordinary shares	**100**	100	Civil engineering
			HK$14,800,000 Non-voting deferred shares	**100**	100	
			HK$5,200,000 Non-voting deferred shares (note a)	**–**	–	
Wisdom Aim Investments Limited	Hong Kong	Hong Kong	HK$1	**100**	100	Provision of secretarial and nominee services to group companies
Wuxi Qianhui Sewage Treatment Co., Ltd. (note b)	PRC	PRC	US$5,400,000	**95.6**	95.6	Sewage treatment
Build King Interior & Construction Limited	Hong Kong	Hong Kong	HK$1,000,000	**70**	80	Fitting out, improvement and alteration works for buildings
惠記環保工程(上海)有限公司 (note c)	PRC	PRC	US$800,000	**100**	100	Environmental engineering

Notes:

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

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

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

46. PRINCIPAL SUBSIDIARIES (Continued)

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

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

Except for BKCL which has issued bonds (note 34), none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

In the opinion of the directors of the Company, there are no subsidiaries that have non-controlling interest individually which are material to the Group at the end of each reporting period. Therefore, no information is disclosed for these non-wholly owned subsidiaries.

RESULTS

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Group revenue	2,193,098	3,237,341	4,571,629	4,871,491	**5,986,382**
Share of revenue of joint ventures	–	–	–	13,381	**34,933**
	2,193,098	3,237,341	4,571,629	4,884,872	**6,021,315**
Group Revenue	2,193,098	3,237,341	4,571,629	4,871,491	**5,986,382**
Operating profit	25,390	57,461	105,341	183,853	**266,899**
Share of results of joint ventures	–	–	–	7,512	**8,654**
Share of results of associates	643	619	360	569	**519**
Finance costs	(4,324)	(3,559)	(8,635)	(13,857)	**(18,950)**
Profit before tax	21,709	54,521	97,066	178,077	**257,122**
Income tax expense	(1,495)	(1,907)	(2,884)	(28,531)	**(70,048)**
Profit for the year	20,214	52,614	94,182	149,546	**187,074**

FINANCIAL POSITION

	At 31 December				
	2013	2014	2015	2016	**2017**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,763,061	2,086,857	2,614,565	3,081,557	**3,739,800**
Total liabilities	(1,460,010)	(1,739,958)	(2,192,221)	(2,534,727)	**(3,027,240)**
Net assets	303,051	346,899	422,344	546,830	**712,560**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

David Howard Gem
Chan Chi Hung, Anthony

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Chang Kam Chuen, Desmond

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Reed Smith Richards Butler
Conyers Dill & Pearman

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Progressive Limited
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