CHTC FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)

ANNUAL REPORT 2015

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CORPORATE INFORMATION

CHAIRMAN EMERITUS
Mr. Fong Sou Lam

BOARD OF DIRECTORS
Mr. Ye Maoxin *(Chairman)*
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Wan Wai Yung
Mr. Fong Kwok Leung, Kevin
Mr. Ying Wei#
Dr. Yuen Ming Fai#
Mr. Li Jianxin#

Independent Non-executive Director

COMPANY SECRETARY
Mr. Lee Che Keung

AUTHORISED REPRESENTATIVES
Mr. Ji Xin
Mr. Lee Che Keung

AUDIT COMMITTEE
Mr. Ying Wei *(Committee Chairman)*
Dr. Yuen Ming Fai
Mr. Li Jianxin

REMUNERATION COMMITTEE
Mr. Li Jianxin *(Committee Chairman)*
Mr. Ye Maoxin
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai

NOMINATION COMMITTEE
Mr. Ye Maoxin *(Committee Chairman)*
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin

SOLICITORS
Reed Smith Richards Butler

AUDITOR
Baker Tilly Hong Kong Limited

PRINCIPAL BANKERS IN HONG KONG
Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
CTBC Bank Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL BANKERS IN THE PEOPLE'S REPUBLIC OF CHINA
Bank of China Limited
Ping An Bank Company Ltd.
Bank of Communications Co., Ltd.
Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

BERMUDA PRINCIPAL REGISTRAR AND TRANSFER OFFICE
MUFG Fund Services (Bermuda) Limited
The Belvedere Building,
69 Pitts Bay Road,
Pembroke HM08,
Bermuda

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Tricor Secretaries Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong
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Fax: (852) 2810 8185

REGISTERED OFFICE
Canon's Court,
22 Victoria Street,
Hamilton HM12, Bermuda

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8th Floor,
22-28 Cheung Tat Road,
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WEBSITE ADDRESS
http://www.fongs.com

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of CHTC Fong' s Industries Company Limited (the "Company" or "CHTC Fong's"), I am pleased to present the audited annual consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015.

In September 2015, I was honored to be elected as the new Chairman of the Board of CHTC Fong's to replace Mr. Shi Tinghong upon his resignation due to his new assignment in the parent company, China Hi-Tech Group Corporation（中國恒天集團有限公司）. I would like to take this opportunity to express my sincere gratitude to Mr. Shi Tinghong for his contributions to the Group during his tenure of office.

The year 2015 turned out to be another difficult year for the Group. During the year, the global economy remained fluctuating. Factors like worldwide sluggish demand for consumer goods and slower production growth in the manufacturing sector all dealt a heavy blow to the market. And due to the significant downward pressure on Chinese economy and the financing difficulty of small and medium businesses, manufacturers in the People's Republic of China (the "PRC") remained conservative towards addition and replacement of machinery and equipment. Coupled with intense horizontal competition, that affected the domestic sales of dyeing and finishing equipment. As for export sales, despite the unfavorable depreciation in currencies of many countries, our export sales maintained relatively stable due to effective promotional activities. As a result, the Group's sales had not been significantly affected. For the period under review, the Group recorded consolidated revenue of approximately HK$3,223,000,000, representing a decrease of 6% as compared to approximately HK$3,415,000,000 in the corresponding period of last year. Profit after tax amounted to approximately HK$166,000,000 (including the one-off investment gain arising from disposal of the Group's entire 30% equity interest in Foshan East Asia Co., Ltd.（佛山東亞股份有限公司）of approximately HK$154,000,000), representing an increase of 41% as compared to approximately HK$118,000,000 in the corresponding period of last year. Basic earnings per share was 15.05 HK cents. The Board is pleased to recommend a final dividend of 3 HK cents per share.

CHAIRMAN'S STATEMENT

Looking ahead, the global economic growth is likely to slow down, which would inevitably affect China's economic growth. Despite the downward pressure in economy growth and depressed macroeconomic environment, the Group remains positive about the long-term prospects of the industry in view of the new opportunities brought by the policies including "One Belt and One Road" and the Trans-Pacific Partnership Agreement ("TPPA"). With the implementation of the "One Belt and One Road" strategy, the textile industry will further connect with the international world, expand modern logistics channels, consolidate resources and develop sound IT systems, which will boost upgrading of the industry. In addition, as some Asian countries entered into the TPPA, significant new market opportunities will arise in the Southeast Asian countries such as Vietnam and Indonesia, which will attract more Chinese textile enterprises to establish new facilities in these emerging markets, thus creating more demand for textile equipment.

In my new role as Chairman of the Board in the upcoming year, I am committed to ensuring that the Board and the management will focus on the strategic business development of the Company, continue to improve and strengthen its corporate governance and represent the long-term interests of the shareholders. Leveraging on the solid foundation established over the past 50 years, our well-recognised quality products and strong research and development capabilities, the Group will continue to focus its resources on growing its core business, streamline its business structure and actively explore new investment opportunities with synergies, so as to broaden our income source, better prepare for future market changes and developments, and create greater returns for our shareholders.

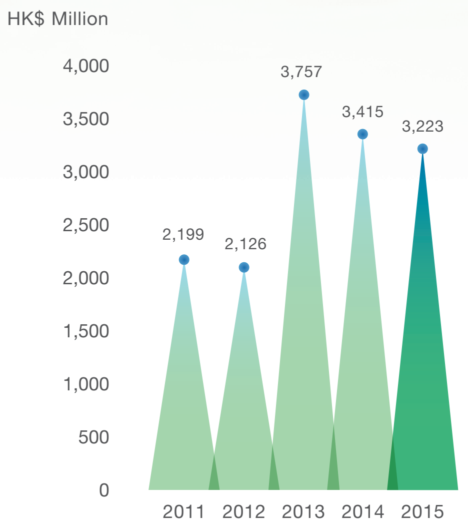
Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners, customers, suppliers and bankers for their continuing trust and support over years. The effort and participation by all our staff and management is essential to the development of the Group. I'm confident that our joint efforts will lead the Group to achieve continuous progress, stay at the forefront of the industry and reach new heights.

Ye Maoxin
Chairman

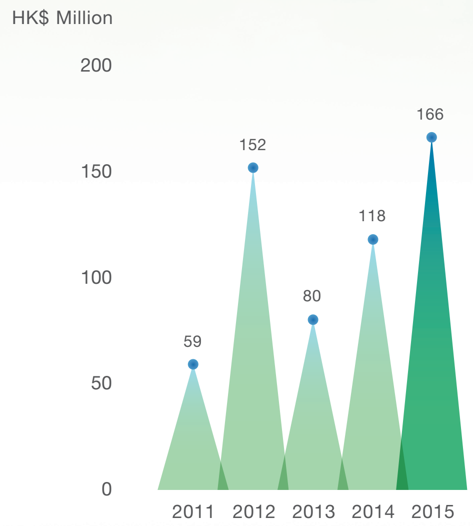
Hong Kong, 23 March 2016

FINANCIAL HIGHLIGHTS

REVENUE

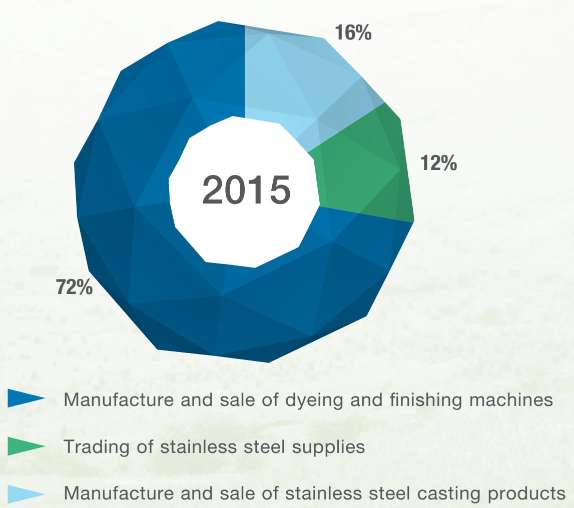


RESULTS

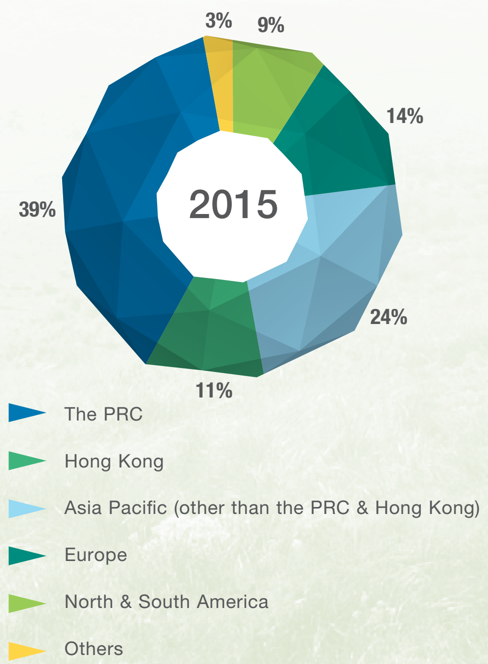


ANALYSIS OF REVENUE FOR THE YEAR

By principal activity



By geographical region

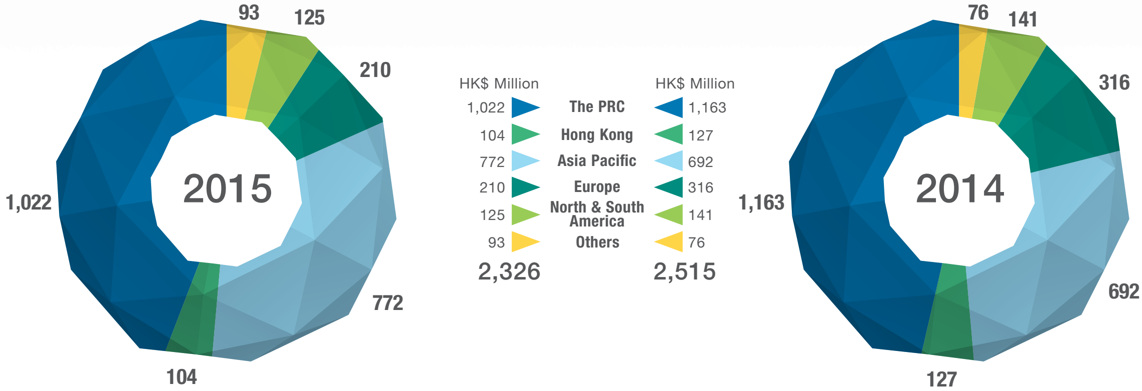


FINANCIAL HIGHLIGHTS

ANALYSIS OF REVENUE FOR THE YEAR *(continued)*

Manufacture and Sale of Dyeing and Finishing Machines

By geographical region



Trading of Stainless Steel Supplies

By geographical region

Manufacture and Sale of Stainless Steel Casting Products

By geographical region

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Chairman Emeritus

Mr. Fong Sou Lam, aged 81, is the founder of the Group and the Chairman Emeritus of the Company. Mr. Fong established the dyeing and finishing machine manufacturing business in 1963 and has over 50 years of business experience in the industry.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Ye Maoxin, aged 53, joined the Company as a Non-executive Director and the Vice-Chairman of the Board on 9 June 2011 and had been re-designated as an Executive Director and the Chairman of the Board with effect from 1 September 2015. Mr. Ye is also the Chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Ye is responsible for formulating the overall directions, corporate strategies and policies of the Group. Mr. Ye holds a Bachelor of Engineering degree in machinery manufacturing from Xian Jiaotong University (西安交通大學) and an Executive Master of Business Administration degree from Guanghua School of Management, Beijing University (北京大學光華管理學院). Mr. Ye is currently the deputy general manager of China Textile Machinery (Group) Company Limited (中國紡織機械(集團)有限公司), the president of China Hi-Tech Holding Company Limited and the vice-president of China Hi-Tech Group Corporation (中國恒天集團有限公司). Mr. Ye is also the chairman of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司), a company listed on the Shenzhen Stock Exchange (A-share stock code: 000666). Mr. Ye has over 30 years of solid experience in business management in the textile machinery industry.

Other Executive Directors

Mr. Ji Xin, aged 46, has been appointed as an Executive Director of the Company with effect from 15 March 2012, and has acted as the Chief Executive Officer with effect from 1 January 2013. Mr. Ji is also a member of the Nomination Committee and Remuneration Committee of the Company. Mr. Ji received his Bachelor of Engineering in Mechanical Designs from Tianjin Polytechnic University (天津工業大學) in 1991 and an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University (清華大學) in 2008. He is a senior engineer and has been appointed as a visiting professor by Tianjin Polytechnic University (天津工業大學) since 2008. Mr. Ji had held the positions as the chairman of Qingdao Textile Machinery Co., Ltd. (青島紡織機械股份有限公司) and as the chairman of Qingdao Hongda Textile Machinery Co., Ltd. (青島宏大紡織機械有限責任公司), being corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司). In addition, Mr. Ji is currently a director of China Textile Industry Association (中國紡織工業聯合會), the vice-president of China Textile Machinery Association (中國紡織機械器材工業協會), the vice-president of China Nonwovens & Industrial Textiles Association (中國產業用紡織品行業協會) and the vice-president of China Dyeing and Printing Association (中國印染行業協會). Mr. Ji was accredited as Qingdao City Excellent Entrepreneur (青島市優秀企業家), Qingdao City Labour Model (青島市勞動模範), Labour Model in China Textile Industry (全國紡織工業勞動模範) and Top Ten Innovative Figure in China Textile Industry in 2007 (二零零七年中國紡織行業十大創新人物). Mr. Ji has rich experience in areas ranging from operational management, sales and marketing, capital operations and strategic planning.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Wan Wai Yung, aged 64, is an Executive Director of the Company and mainly responsible for the overall management of Monforts Fong's Textile Machinery Co. Limited and the companies of the German Monforts Group, which are engaged in the manufacture and sale of textile finishing machines. Mr. Wan first joined the Group in 1978 and has over 30 years of experience with excellent customer relationships in the textile and dyeing industry.

Mr. Fong Kwok Leung, Kevin, aged 54, joined the Group in 1986 and is an Executive Director of the Company. Mr. Kevin Fong has been involved in the business of stainless steel trading since 1988 and is currently responsible for overseeing the stainless steel trading and stainless steel casting businesses of the Group. Mr. Kevin Fong holds a Bachelor's degree in Business Administration from the Simon Fraser University, Canada. Mr. Kevin Fong is the eldest son of Mr. Fong Sou Lam.

Independent Non-executive Directors

Mr. Ying Wei, aged 49, has been appointed as an Independent Non-executive Director of the Company since 1 September 2011. Mr. Ying is also the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Ying holds a Master of Business Administration degree from the University of San Francisco and a Bachelor's degree of Economics from Zhejiang Gongshang University（浙江工商大學）(formerly known as Hangzhou Institute of Commerce（杭州商學院）) and is a non-practising member of the China Institute of Certified Public Accountants（中國註冊會計師協會）. Mr. Ying had worked for Chinese Resources Textiles (Holdings) Company Limited（華潤紡織（集團）有限公司）as executive director and vice-president during the period from 1989 to 2007. Mr. Ying had also worked for China Water Affairs Group Limited (stock code: 855) as vice-president during the period from 2007 to 2009, and had worked for China Botanic Development Holdings Limited (now re-named as China City Infrastructure Group Limited) (stock code: 2349) as an executive director and president during the period from 21 July 2008 to 30 July 2009. Mr. Ying had also acted as an independent non-executive director of China Public Procurement Limited (stock code: 1094) during the period from 28 December 2012 to 24 March 2014. Currently, Mr. Ying is an independent non-executive director of Fountain Set (Holdings) Limited (stock code: 420) and the chairman and non-executive director of New Focus Auto Tech Holdings Limited (stock code: 360). The shares of the above companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Ying is also the operating partner of CDH Investments.

Dr. Yuen Ming Fai, aged 65, has been appointed as an Independent Non-executive Director of the Company since 1 September 2004. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Dr. Yuen is currently the Professor of the Department of Mechanical and Aerospace Engineering at the Hong Kong University of Science and Technology. Dr. Yuen holds a doctorate degree in Mechanical Engineering from the University of Bristol, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Yuen had also been an independent non-executive director of UDL Holdings Limited (now re-named as DTXS Silk Road Investment Holdings Company Limited) (stock code: 620) during the period from April 2002 to 2 November 2015.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Li Jianxin, aged 62, has been appointed as an Independent Non-executive Director of the Company since 1 July 2014. Mr. Li is also the Chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Li graduated from Inner Mongolia Engineering College (內蒙古工學院) (currently known as Inner Mongolia University of Technology (內蒙古工業大學)) specialising in chemical machinery and obtained a Bachelor of Engineering. Mr. Li completed his study of the postgraduate course on Chinese Culture and Modernisation (中國文化與現代化) at Tsinghua University (清華大學) in 2003. Over the period between 1985 until his retirement in 2013, Mr. Li had been working for a large Chinese state-owned commercial bank and held positions as the assistant general manager of Credit and Investment Approval Department, a commission member of Investment Commission and a member of the Credit Policy Committee at the Main Office focusing on approval of corporate finance. Mr. Li holds the title of Senior Economist having many years of experience in financial affairs and in-depth knowledge of the business operations of a wide range of industries and has accumulated extensive experience in financial analysis, project finance, investment management and risk control.

SENIOR MANAGEMENT

Mr. Zhao Chuancong, aged 42, joined the Group on 19 May 2011. Mr. Zhao is a vice-president of the Company and his major responsibilities in the Group are to manage the investment and strategic development division of the Group, as well as the wastewater treatment business. Mr. Zhao holds a Bachelor's degree of economics in international enterprises management from China Anhui University (中國安徽大學) and a Master of Engineering in software engineering from Beihang University (北京航空航天大學). He also completed the part-time master degree studies in respect of the course in investment project management at the Chinese Academy of Social Sciences (中國社會科學院), the CFO training course at the School of Economics of Peking University (北京大學) and a part-time doctorate degree course in finance at the Chinese Academy of Social Sciences (中國社會科學院).

Mr. Du Qianyi, aged 50, joined the Company on 15 March 2012 and is currently the Chief Financial Officer of the Group. Mr. Du had worked for corporations affiliated with China Hi-Tech Group Corporation (中國恒天集團有限公司) since 1986 and had held positions as finance director, chief accountant and financial controller of Shaoyang Textile Machinery Co., Ltd. (邵陽紡織機械有限責任公司) during the period from 1997 to 2003. He had also held the positions as deputy finance director and finance director of China Textile Machinery (Group) Co., Ltd. (中國紡織機械(集團)有限公司) and as the finance director of China Hi-Tech Group Corporation (中國恒天集團有限公司). Mr. Du has been working in the textile machinery industry for a prolonged period, knowing the traits in the markets and operations of the textile machinery industry, having extensive experience in corporate management as well as solid theoretical foundation and rich practical experience in the areas of capital operations, operational management and financial management.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Dr. Tsui Tak Ming, William, aged 57, is a vice-president of the Company and is in charge of the research and development team of the Group. Dr. Tsui is a chartered engineer and chartered I.T. professional, he holds a bachelor of science degree and a doctorate of philosophy degree in Aeronautical Engineering from the University of Manchester, the United Kingdom and is a fellow member of both the Institution of Mechanical Engineers (UK) and the Hong Kong Institution of Engineers. Dr. Tsui is also a corporate member of the British Royal Aeronautical Society, the Hong Kong Computer Society and the British Computer Society. Dr. Tsui is an expert in Physics, Computing, Automation Control and Management issues. Dr. Tsui joined the Group in 1989 and has over 30 years of experience in research and development on mechanical engineering and information technology. Dr. Tsui is the inventor of over 50 inventions of the Group with patent granted. He has been a member of the advisory committee in various universities including the University of Hong Kong, the Hong Kong Polytechnic University and the City University of Hong Kong.

Mr. Yang Xiaojian, aged 58, is a director of Fong's Group Management Limited (a wholly-owned subsidiary of the Company) and is responsible for the Group's human resources, administration and external affairs. Mr. Yang graduated from Santa Monica College in the USA with an Associate Bachelor's degree in Business Administration. He studied business administration courses in California State University in the USA and holds a Master's degree in Business Administration from Suffield University in the USA. Mr. Yang joined the Group in January 2011.

Mr. Leung Sheung Wai, Walter, aged 49, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the overseas market. Mr. Leung graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Textile Chemistry. He is also a Chartered Member of the Textile Institute and a Fellow of the Society of Dyers and Colourists. Mr. Leung joined the Group in 1997.

Mr. Wong Tak Man, Francis, aged 51, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the knitting market in China. Mr. Wong is also the general manager of Fong's Water Technology Company Limited (a wholly-owned subsidiary of the Company) responsible for overseeing the operations of the wastewater treatment business. Mr. Wong graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Higher Diploma in Marine Engineering. Mr. Wong joined the Group in 1987.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Wong Ching Chuen, Patrick, aged 54, is a sales director of Fong's National Engineering Company, Limited (a wholly-owned subsidiary of the Company) and is responsible for overseeing the sales and marketing activities of the dyeing and finishing machine business of the Group in the woven market in China. Mr. Wong has been educated in the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) for Mechanical Engineering and Griffith University in Australia for law. Mr. Wong has extensive experience in China trade for industrial equipment supplies and engineering work. Mr. Wong joined the Group in July 2000.

Mr. Thomas Archner, aged 58, is a Joint Managing Director of Fong's Europe GmbH (a wholly-owned subsidiary of the Company). Mr. Archner graduated from the University of Hamburg with a Diploma in Economics. He has more than 25 years' senior and executive management experience in industrial companies, including in the textile machinery business. Mr. Archner joined the Group in January 2008.

Mr. Roland Hampel, aged 61, is the Joint Managing Director of A. Monforts Textilmaschinen GmbH & Co. KG in Mönchengladbach, Germany. Mr. Hampel graduated from Aachen Technical High School with a Diploma in Engineering. He is an engineer with more than 30 years' experience as an executive manager in the design of textile machines especially driers and thermo treatment machines. Mr. Hampel joined the German Monforts Group in 1999 and has been heading all administrative, technical and financial issues including the manufacturing company "Montex Maschinenfabrik Ges.m.b.H" in Austria since 2007. Mr. Hampel is a board member of Monforts Fong's and a member of the technical advisory committee of the German machine builder's guild VDMA (German Engineering Federation).

Mr. Lee Che Keung, aged 54, is the company secretary of the Company. Mr. Lee graduated from the Hong Kong Polytechnic (which was subsequently renamed the Hong Kong Polytechnic University) with a Professional Diploma in Company Secretaryship and Administration and is an associate member of the Hong Kong Institute of Chartered Secretaries. Mr. Lee is responsible for the investor relations of the Company and the overall corporate secretarial matters of the Group. Mr. Lee joined the Group in February 1990.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

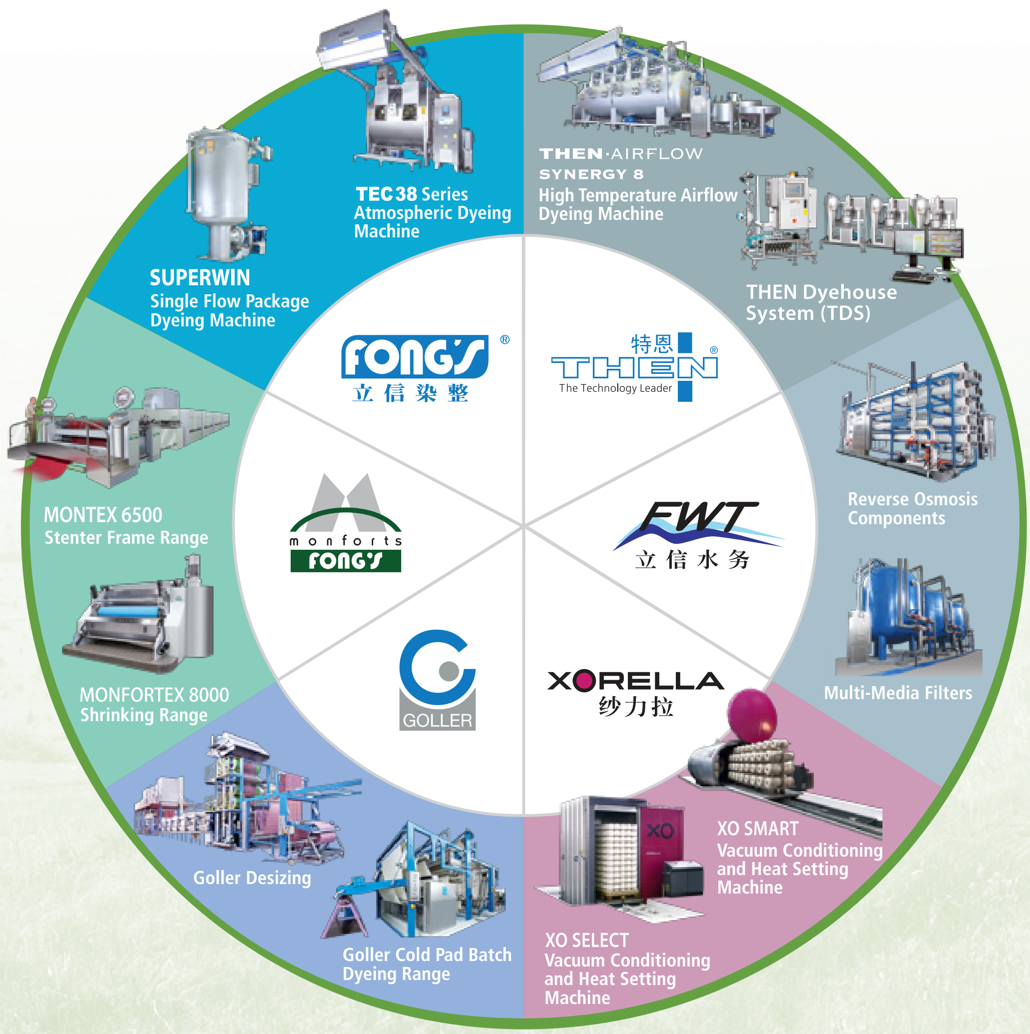
As the global economy was facing downward pressures and the overall business environment did not see much improvement, the Group recorded a decrease in revenue and profit as compared with the same period of last year. For the year ended 31 December 2015, the Group recorded revenue of approximately HK$3,223,000,000, representing a decrease of 6% as compared to approximately HK$3,415,000,000 in the corresponding period of last year. Profit after tax amounted to approximately HK$166,000,000 (including the one-off investment gain arising from disposal of the Group's entire 30% equity interest in Foshan East Asia Co., Ltd. (佛山東亞股份有限公司) of approximately HK$154,000,000), representing an increase of 41% as compared to approximately HK$118,000,000 in the corresponding period of last year. Basic earnings per share for the year were 15.05 HK cents as compared to basic earnings per share of 10.69 HK cents (restated) for the corresponding period of last year.

MANUFACTURE AND SALE OF DYEING AND FINISHING MACHINES

The year of 2015 was still full of challenges for the equipment manufacturing sector. Overall, the global macro economy remains depressed, which has continued to impact the Chinese export on textiles and apparels. Additionally, due to stagnate production resulted from sluggish domestic demand and continuing financing difficulties, many manufacturers in mainland China have reduced or delayed their purchasing and replacing plans of manufacturing equipment. As to the overseas markets, the weakness of the Euro diminished the price competitiveness of the Group's products manufactured in the PRC when entering into the European market. Emerging markets such as India, Brazil, Indonesia and Vietnam were prudent in investing production equipment quoted in US dollars due to the substantial depreciation of their currencies. However, the overall sales of dyeing and finishing machines had not been significantly affected thanks to the concerted efforts of the Group's operating team to increase promotions and improve the quality and competitiveness of our products.

For the year ended 31 December 2015, this business segment recorded revenue of approximately HK$2,326,000,000, accounting for 72% of the Group's revenue and representing a decrease of 8% from approximately HK$2,515,000,000 in the corresponding period of last year. In particular, combined sales from Hong Kong and the PRC markets were approximately HK$1,126,000,000, representing a decrease of 13% from approximately HK$1,290,000,000 recorded in the corresponding period of last year; while sales from overseas markets were approximately HK$1,200,000,000, representing a slight decrease of 2% from approximately HK$1,225,000,000 in the corresponding period of last year. Due to the decline in operating revenue, the segment reported a decrease of 66% in operating profit from approximately HK$137,000,000 in the corresponding period of last year to approximately HK$47,000,000, despite higher gross profit margin resulted from continuous improvement in the Group's manufacturing process in recent years and relatively stable prices of stainless steel as the major raw materials.

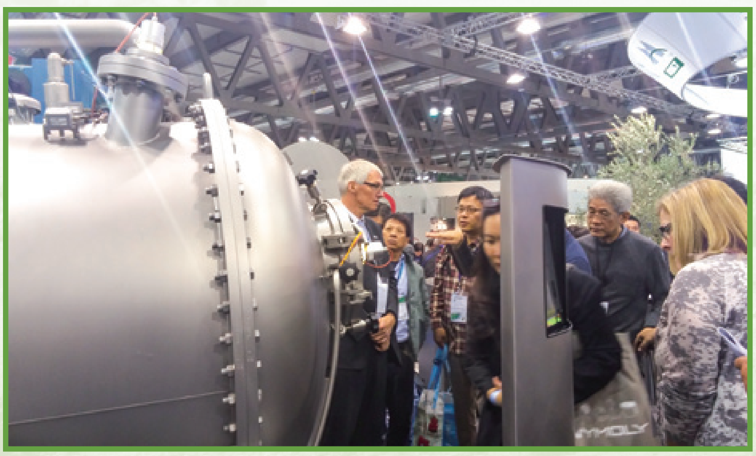
In response to the severe challenges, the Group will continue to streamline its organisational structure and business process to improve overall operating performance and productivity; maintain its commitment to employing stringent controls over supply chain costs and quality, while continuing to develop innovative products and improve service quality to create value for its customers; explore new markets and sales channels to expand the Group's customer base and the market share of its products, all in an effort to maintain leading position in the market and pave way for further business development.



MANAGEMENT DISCUSSION AND ANALYSIS

It has been the Group's persistent business direction to maintain long-term sustainable development. Hence, facing the various market and operational challenges, the Group has continued to focus on the proactive investment in research and development of technology and technical processes in regards to dyeing and finishing machinery, optimising existing product designs and enhancing the quality and reliability of its products in order to maintain its competitiveness. During the year, the Integrated Intelligent Rising System developed by the Group won "Hong Kong Green Innovations Award 2014" in the Hong Kong Awards for Environmental Excellence; its SUPERWIN High Temperature Single Flow Package Dyeing Machine was listed into "Directory of Innovative Technology on Energy-saving Emission Reduction (the 3rd batch) 節能減排技術暨創新應用目錄(第三批)" by the China Cotton Textile Association(中國棉紡織行業協會); and the Company was honored with "China Knitting Industry Science and Technology Contribution Annual Award 2011-2015(2011-2015 中國針織行業科技貢獻獎)" by China Knitting Industrial Association(中國針織工業協會), which demonstrated the leading position of the Group in the dyeing and finishing machine industry in China.

◄▼ Exhibition booth in SHANGHAITEX 2015



▲ New product launched in ITMA Milan 2015

▲ SUPERWIN listed into "Directory of Innovative Technology on Energy-saving Emission Reduction" by the China Cotton Textile Association

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of marketing, the Group will target a few potential emerging markets including countries such as India, Bangladesh, Indonesia, Vietnam, Turkey and Brazil, and will strive to boost sales in these markets in accordance with existing strategies. Currently, the Group is focused on harnessing the synergies that have risen from the acquisition of the Monforts Group (as defined below) at the end of 2012, in order to expand penetration along the textile industry chain and provide the market with more advanced dyeing and finishing equipment, thereby further enhancing the overall competitiveness of the Group.

▲▶ Fong's Integrated Intelligent Rinsing System won Hong Kong Green Innovations Award 2014

On 30 November 2012, the Group, through its subsidiary, Fong's Projects Holding Limited ("Fong's Projects"), completed the acquisition of Monforts Fong's and German Monforts (collectively referred to as "Monforts Group"). Pursuant to the subscription agreement dated 3 June 2012 between the Group and L. Possehl & Co. mbH ("Possehl") (the "Subscription Agreement"), shares of Fong's Projects representing 9.9% of its equity interests were issued to Possehl at the same time. Upon then, Fong's Projects was owned as to 90.1% by the Group and 9.9% by Possehl. Pursuant to the Subscription Agreement, among others, Possehl was granted with the put option, which entitles it to sell its 9.9% equity interests in Fong's Projects and assign the shareholder's loan to the Group at a total consideration of EUR9,000,000 within three months commencing from and including the third anniversary after the completion date of the above transaction. On 9 December 2015, Possehl exercised the put option to transfer its entire 9.9% equity interests in Fong's Projects and assign the shareholder's loan to the Group at a total consideration of EUR9,000,000. Upon completion of the transaction on 21 December 2015, Fong's Projects was wholly owned by the Group. For more details, please refer to the Company's announcement dated 21 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

The Monforts Group is principally engaged in manufacturing and selling continuous dyeing and finishing machine for textiles. In particular, Monforts Fong's, focusing on the PRC market and other regions in Asia, has a flagship product of stenter machine which enjoys the largest market share of 40% in the PRC and has ample room for future growth. Meanwhile, German Monforts, with its focus on overseas markets such as Europe and America, has been actively expanding its business of the finishing equipment for technical textiles. During the year, German Monforts signed a sale and purchase agreement to acquire the coating technologies from an Austrian company named TIMATEC Coating GmbH ("TIMATEC"). The acquisition was completed in January 2016. TIMATEC has the most advanced and comprehensive coating technologies in the world, which boasts huge growth potential with extensive application in various technical textiles for industry, fire-fighting, transportation, aviation and energy.

As a leading textile machinery manufacturer, the Group not only dedicates to the dyeing and finishing machines sector, but also actively pursues business development along the whole industrial chain, especially in wastewater treatment. In 2007, the Group established its treated wastewater reuse business to develop treated wastewater reuse system and equipment for dyeing factories, which marked an effective move that complements the dyeing and finishing machinery business with energy saving and emission reduction. By doing so, the Group has set a benchmark for the industry by promoting environmental protection awareness among textile companies. The Group is currently in negotiation for multiple wastewater treatment projects, which is expected to be a new profit driver of the Group in the future.

Construction of Phase II of the new production plant of the Group located at Linhai Industrial Park, Tsui Hang New District, Zhongshan City, Guangdong Province is scheduled to be completed in 2017. The Group's production capacity is expected to significantly improve upon full operation of the plant. The new Zhongshan plant will be keen on energy conservation, production efficiency and high efficiency in the design of production processes and will apply more automated processes to reduce manpower requirement and labour costs.

At the meantime, Chinese government has launched various new strategies, including "One Belt and One Road" and "Made in China 2025", which would help drive technology transformation of traditional industries and the economic growth in the long run, while providing new opportunities to the Group's medium to long-term development. The Board believes that the Group has laid a solid foundation for its mission to be "a world-class manufacturer of dyeing and finishing machinery". By excelling ourselves and striving to provide more advanced, efficient, energy-saving and high quality-products and integrated solutions for our customers, we will seize various opportunities in a pragmatic manner to make the Group bigger and stronger.

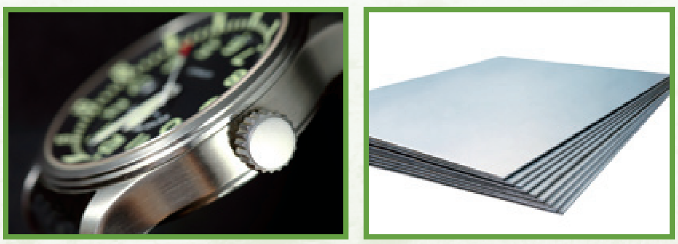
TRADING OF STAINLESS STEEL SUPPLIES

Due to the overstocked inventories in the international markets and the overcapacity in the segment, steel prices have been falling in recent years, which led to a relatively low gross profit margin from stainless steel distribution. Over the recent years, the Group has been cautious in its stainless steel trading business in order to reduce sales risk from fluctuations in stainless steel prices. For the year ended 31 December 2015, this business segment recorded revenue of approximately HK$377,000,000, accounting for 12% of the Group's revenue, representing a decrease of 12% compared to approximately HK$430,000,000 for the corresponding period of last year. Operating profit for the period amounted to approximately HK$2,600,000 as compared to the profit of approximately HK$22,000,000 for the corresponding period of last year.

The Group will continue to adopt a prudent approach in running this business. It will take appropriate actions to mitigate market risks, adjust selling prices and the level of inventories appropriately and in a timely manner based on market analysis and its judgment, in order to improve the inventory turnover ratio while minimising the risk on price fluctuations. At the same time, the Group will strengthen the credit management of sales and trade receivables in order to lower the risk of bad debts and improve its cash flow.

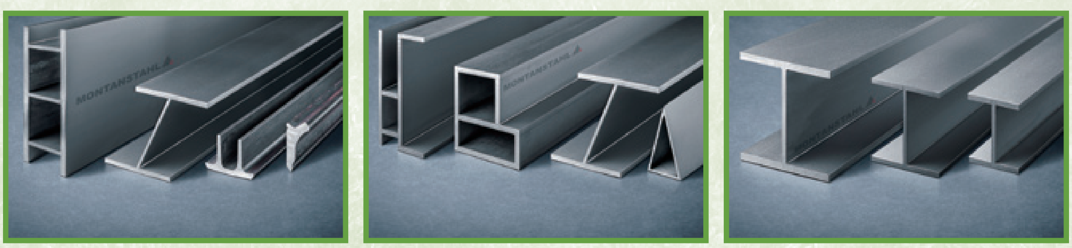
The construction industry in Hong Kong is booming as more major infrastructure projects commenced, which will present opportunities to the stainless steel trading business. Therefore, the Group remains optimistic on the prospect of the stainless steel trading business. The Group will closely monitor and response to market changes to maintain steady growth in this business segment.

outokumpu
high performance stainless steel



◀ Outokumpu Watchcase Material – Sole Distributor in the PRC, Hong Kong and Macau

MONTANSTAHL
special profiles in steel



▲ Montanstahl Laser Fused Stainless Steel Special Profile – Sole Distributor in Hong Kong and Macau

MANAGEMENT DISCUSSION AND ANALYSIS

MANUFACTURE AND SALE OF STAINLESS STEEL CASTING PRODUCTS

The products of this business segment are primarily high-quality castings and machined processing parts made of stainless steel, dual-phase steel and nickel-based alloys that are widely used in large industrial facilities in industries such as valves, pumps, chemical, oil and natural gas and foods, with customers principally hailing from Europe, the United States and Japan. The stainless steel casting business maintained a steady growth in orders from its major customers thanks to the efforts of the operating team, stable supply capacity and good product quality. Meanwhile, the Group continued to optimise cost control and production management, improve workshops and the production processes, increase automated equipment, effectively reduce the scrappage rate of its products and enhance product competitiveness. As such, the stainless steel casting business segment recorded improvement in its overall gross profit margin.

For the year 2015, this business segment reported satisfactory performance as a whole and the results were in line with targets. Revenue for the period amounted to approximately HK$521,000,000, accounting for 16% of the Group's revenue and representing an increase of 11% compared to approximately HK$470,000,000 in the corresponding period of last year. Operating profit increased to approximately HK$47,000,000 from approximately HK$45,000,000 in the corresponding period of last year.

The management believes that market demand for high-quality stainless steel castings will continue to grow. Given the above measures implemented and the stabilisation of the global economy and market, the management is confident that in the mid to long term, this business segment will maintain steady revenue growth and make good contribution to the Group's profit.

▲ An illustration of new foundry plan in Zhongshan, China

▲ Machine centre for machining high precision required casting products

DISPOSAL OR ACQUISITION OF MAJOR ASSETS

On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited ("FNES"), a wholly-owned subsidiary of the Company, entered into a conditional co-operation agreement (the "Co-operation Agreement") with (among others) an independent third party in respect of the redevelopment of FNES's existing land (the "Land") in Buji, Shenzhen by way of urban renewal. For details of the Co-operation Agreement, please refer to the Company's announcement dated 1 April 2014 and the Company's circular dated 25 April 2014. Pursuant to the Co-operation Agreement, FNES will receive, through resettlement and demolition compensation, a total of RMB1 billion in cash by five installments; and the facilities to be constructed on the redeveloped Land with a total gross floor area of approximately 30,000㎡ (and, in addition, at least 100 car-parks), which are expected to be used as the Group's sales office, product design and research and development facilities. The Co-operation Agreement constituted a very substantial disposal for the Company and has been approved by the shareholders of the Company at the special general meeting held on 15 May 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. FNES also received the first installment of cash compensation amounting to RMB100 million in December 2014. The cash compensation from the urban renewal project will partially fund the Group's plan to relocate all of its manufacturing facilities in Shenzhen to Zhongshan (including the construction cost for Phase II of the Zhongshan manufacturing plant). Construction of Phase II of the Zhongshan manufacturing plant is expected to complete by 2017. The urban renewal project signifies the Group's contribution to urban renewal in Shenzhen and is expected to enhance the manufacturing technology of the Group, improve its industrial layout and logistics and further consolidate and increase the competitiveness of the Group. The Co-operation Agreement will facilitate the Group to modernise its Shenzhen operations especially in terms of its product design, sales and research and development through the retention of the new property on the Land upon completion of the urban renewal project.

On 31 August 2014, the Group entered into a conditional agreement with Hengtian Real Estate Company Limited (恒天地產有限公司), a company owned as to 47.35% by China Hi-Tech Group Corporation (中國恒天集團有限公司), the controlling shareholder of the Company, to sell its entire 30% equity holding in Foshan East Asia Co., Ltd. (佛山東亞股份有限公司) ("Foshan East Asia") at a consideration of RMB150 million (the "Disposal"). For details of the Disposal, please refer to the Company's announcement dated 31 August 2014 and the Company's circular dated 31 October 2014. The Disposal constituted a discloseable and connected transaction for the Company and has been approved by the independent shareholders of the Company at the special general meeting held on 18 November 2014 and by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The Disposal was completed on 17 September 2015 and Foshan East Asia has ceased to be an associate of the Company. The Group recorded a disposal gain of approximately HK$154,000,000 from the Disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

On 25 June 2015, the Group entered into a conditional agreement with two independent third-parties to acquire 100% of the paid-up registered capital of Foshan City Chanhuade Information Technology Limited（佛山市禪華德信息科技有限公司）(the "Target") at a total consideration of RMB146,139,690 (the "Acquisition"). For more details of the Acquisition, please refer to the Company's announcement dated 25 June 2015 and the Company's circular dated 24 July 2015. The Acquisition constituted a discloseable and connected transaction for the Company and has been approved by the independent shareholders of the Company at the special general meeting held on 11 August 2015. The Target's major asset is its holding of 13.26% paid-up registered capital of Hengtian Real Estate Company Limited（恒天地產有限公司）. Hengtian Real Estate Company Limited（恒天地產有限公司）is a company incorporated in the PRC and is principally engaged in real estate development with a number of property development projects in various provinces and cities in the PRC. The Board feels confident about the overall property market in the PRC. Taking into account the development opportunities and potential of the property development portfolio held by Hengtian Real Estate Company Limited（恒天地產有限公司）, the Board believes that the above Acquisition will provide an alternative source of income going forward, hence improving the profitability of the Group. Upon the completion of the Acquisition on 23 December 2015, the Target became a wholly-owned subsidiary of the Company.

Save as disclosed above, the Group did not have other significant investment, acquisition and disposal during the year under review.

HUMAN RESOURCES

As at 31 December 2015, the Group had a total of approximately 4,400 employees (31 December 2014: approximately 4,540 employees) across mainland China, Hong Kong, Macau, Germany, Switzerland, Austria, Thailand, India, Turkey and Central and South America. In 2015, total staff costs (including Directors' emoluments, employees' remuneration and contribution to retirement benefits scheme) amounted to approximately HK$732,000,000 (2014: approximately HK$751,000,000), accounting for 23% (2014: 22%) of our revenue. The Group will continue to monitor the market situation and consolidate its human resource and labour structure in order to utilise manpower more efficiently and enhance operational productivity.

The Group has always placed great importance on human resources and considers that competitive remuneration is an essential factor that motivates employees at all levels to be dedicated to their work and to provide customers with high-quality products and services. The Group's employees are remunerated according to industry benchmarks, prevailing market conditions, their experiences and performance. The Group's remuneration policies and packages are reviewed by the Remuneration Committee of the Company on a regular basis. Discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The Group also provides employees with other benefits including annual leave, medical insurance, education subsidies, retirement benefits scheme or Mandatory Provident Fund Schemes.

The Group recognises the importance of having high caliber employees. Therefore, the Group will continue to offer appropriate training programs to employees at all levels on an ongoing basis so as to improve staff's quality to better cope with the future development of the Group.

LIQUIDITY AND CAPITAL SOURCES

Given continuously increasing cost pressure, the Group strictly implemented prudent cost and cash flow management. During the year, the Group met its funding requirements for its ordinary and normal course of business with cash flow generated from operations and existing banking facilities. The Board believes that the Group is in a healthy financial position and has sufficient resources to support its operation.

During the year ended 31 December 2015, the Group's net cash inflow from operating activities was approximately HK$155,000,000. As at 31 December 2015, the Group's inventory level decreased to approximately HK$649,000,000 as compared to approximately HK$773,000,000 as at 31 December 2014.

As at 31 December 2015, bank borrowings of the Group amounted to approximately HK$1,093,000,000. Most of the bank borrowings were sourced from Hong Kong, with 70% denominated in Hong Kong dollars and 30% in United States dollars. The Group's bank borrowings are predominantly subject to floating interest rates.

As at 31 December 2015, the Group's bank balances and cash amounted to approximately HK$443,000,000, of which 56% was denominated in Renminbi, 22% in United States dollars, 14% in Hong Kong dollars, 6% in Euros and the remaining 2% in other currencies.

The Group continued to maintain prudent financial management policies during the year. As at 31 December 2015, the Group's gearing ratio, defined as net bank borrowings (other than payables in ordinary course of business) over total equity, increased to 47% (31 December 2014: 41%) and its current ratio was 1.00 (31 December 2014: 0.98). The Board considers these ratios to be at healthy and appropriate levels.

The Group's sales were principally denominated in Renminbi, United States dollars or Euros, while purchases were denominated in Renminbi, United States dollars, Euros or Hong Kong dollars. As such, the Group does not foresee significant exposure to exchange rate risks. The Board will continue to monitor the Group's overall exposure to foreign exchange risks and will consider hedging significant foreign currency risks, should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As announced on 2 April 2015, the Company proposed a share spilt whereby each existing issued and unissued share of HK$0.10 in the share capital of the Company be divided into two subdivided shares of HK$0.05 each (the "Share Subdivision"). The Share Subdivision reduced the nominal value and trading price of each share and increased the total number of shares of the Company in issue, but did not otherwise affect the corresponding rights of the shareholders. Subsequent to the Share Subdivision, the authorised share capital of the Company becomes HK$100,000,000 divided into 2,000,000,000 shares. The Board considers that the increase in share number will enhance the liquidity in trading of the Company's shares, enabling the Company to attract more investors and broaden its shareholder base. Following the passing of an ordinary resolution at the annual general meeting, the Share Subdivision became effective on 22 May 2015.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2015.

CORPORATE GOVERNANCE

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that leads to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

Throughout the year ended 31 December 2015, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviations from code provision A.6.7 as disclosed below.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All the Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the code of conduct regarding securities transactions by the Directors adopted by the Company during the year ended 31 December 2015.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or directors or employees of the Company's subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its subsidiaries. No incident of non-compliance was noted by the Company for the year ended 31 December 2015.

BOARD OF DIRECTORS

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing the duties.

CORPORATE GOVERNANCE REPORT

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and members of the management. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board. The Board reserves the right to decide on all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The Board is led by the Chairman and currently comprises four Executive Directors and three Independent Non-executive Directors. The Directors during the year and up to the date of this Corporate Governance Report are:

Executive Directors

Mr. Ye Maoxin *(Chairman)* (re-designated as Executive Director and Chairman on 1 September 2015)
Mr. Ji Xin *(Chief Executive Officer)*
Mr. Wan Wai Yung
Mr. Fong Kwok Leung, Kevin
Mr. Shi Tinghong *(Chairman)* (resigned on 1 September 2015)

Independent Non-executive Directors

Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin
Mr. Zhou Yucheng (retired on 21 May 2015)

The biographical details of the current Directors are listed in the section of "Directors and Senior Management Profile" in this Annual Report.

The Board has delegated a number of responsibilities to the Executive Directors and the management team of the Company. The management team under the Chief Executive Officer is responsible for formulating the strategic plans and operation goals of the Group. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board will also review the management structure of the Group from time to time and will adopt appropriate measures as may be desirable for future development of the operating activities or business of the Group.

There is no relationship (including financial, business, family or other material or relevant relationship) among members of the Board and in particular, between the Chairman and the Chief Executive Officer. The Company considers that the Directors have the necessary skills and experience appropriate for discharging their duties as directors in the best interest of the Company and that the current board size is adequate for its present operations. Executive Directors are in charge of different businesses or functional divisions in accordance with their respective areas of expertise. The Non-executive Director and Independent Non-executive Directors possess extensive academic, professional and industry expertise and management experience, and play a significant role in the Board by virtue of their impartial view and independent advice on the Company's business strategies and management so as to safeguard the interests of the Company and its shareholders.

The Company has also arranged appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against them arising from corporate activities. During the year, no claim was made against any Directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In order to have a clear division between the management of the Board and the day-to-day management of the business operations of the Group, the role of the Chairman is separate from that of the Chief Executive Officer. The Chairman focuses on overall corporate development and strategic direction of the Group and provides leadership for the Board and oversees the efficient functioning of the Board. The Chairman is also responsible for instilling corporate culture and developing strategic plans for the Group. On the other hand, the Chief Executive Officer is responsible for all day-to-day corporate management and operations as well as assisting the Chairman in planning and developing the Group's strategies. Such division of responsibilities helps to reinforce their independence and to ensure a balance of power and authority.

On 1 September 2015, Mr. Shi Tinghong resigned as an Executive Director and the Chairman of the Board and ceased to hold any positions in the Group due to his new assignment in China Hi-Tech Group Corporation（中國恒天集團有限公司）. Mr. Ye Maoxin has been appointed as the Chairman of the Board in place of Mr. Shi Tinghong with effect from 1 September 2015.

During the year ended 31 December 2015, the role of Chief Executive Officer has been performed by Mr. Ji Xin.

NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhou Yucheng retired as an Independent Non-executive Director at the annual general meeting of the Company held on 21 May 2015 ("2015 AGM"). Following his retirement, Mr. Zhou had ceased to take the roles as member of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company at the conclusion of the 2015 AGM.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required under Rule 3.13 of the Listing Rules. Moreover, all the Independent Non-executive Directors have entered into service contracts for a term of two years, subject to retirement by rotation and re-election in accordance with the provisions of the Bye-laws of the Company.

As at 31 December 2015, the Board met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors (representing at least one-third of the Board members), with at least one Independent Non-executive Director possessing appropriate professional qualifications and accounting and related financial management expertise.

In compliance with Rule 3.10(2) of the Listing Rules, Mr. Ying Wei, one of the Independent Non-executive Directors, is a non-practising member of the Chinese Institute of Certified Public Accountants（中國註冊會計師協會）and has appropriate qualifications on accounting and related financial management expertise.

The Independent Non-executive Directors are expressly identified in all of the Company's publications such as circular, announcement or relevant corporate communications in which the names of Directors are disclosed.

BOARD MEETINGS

The Board members meet regularly throughout the year to review the overall strategy and to monitor the operations as well as the financial performance of the Group. Senior executives are from time to time invited to attend board meetings to make presentations or answer the Board's enquiries.

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals to discuss the overall strategy as well as the operational and financial performance of the Group. Other board meetings will be held when necessary. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has a conflict of interest. As some of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of the PRC, it may, in practice, be inconvenient to convene a full board meeting on a frequent basis. Hence, the Board may approve certain issues in the form of a written resolution. With a view to facilitating Directors' attendance at board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board. The Board held a total of ten board meetings (including two meetings by way of circulation of written resolutions and five meetings which were held regarding matters involving the attendance of Executive Directors only) during the year ended 31 December 2015. The attendance record of each Director at the board meetings is disclosed below in this Corporate Governance Report.

In the said board meetings, sufficient fourteen-day notices for regular board meetings and notice in reasonable days for non-regular board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the board meetings and at least three days before the regular board meetings. Sufficient information was also supplied by the management to the Board to enable it to make decisions, which are made in the best interests of the Company. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable prior notice by any Director.

During the year, a meeting of the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without presence of the Executive Directors was held to discuss and review the strategic planning of the Group, and the adequacy of systems and controls in place to safeguard the interests of the Group.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the CG Code. As at the date of this Corporate Governance Report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices; (b) training and continuous professional development of Directors and senior management; (c) the Company's policies and practices on compliance with legal and regulatory requirements; (d) the Company's code of conduct; and (e) the Company's compliance with the CG Code and disclosures in this Corporate Governance Report.

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse board to the quality of its performance. The Company adopted a board diversity policy on 28 August 2013 with the aim of setting out the approach to achieve diversity on the Board. In designing the Board's composition, board diversity has been considered to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

BOARD COMMITTEES

The Board has established three Board committees, namely, Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website at http://www.fongs.com and the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at http://www.hkexnews.hk and are available to shareholders upon request. All Board committees report to the Board on their decisions or recommendations.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

NOMINATION COMMITTEE

On 28 March 2012, the Board established a Nomination Committee pursuant to the requirements of the CG Code. It considers matters regarding the nomination and/or appointment or re-appointment of Director(s). The terms of reference of the Nomination Committee, which are closely aligned with the CG Code, are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

During the year and up to the date of this Corporate Governance Report, the members of the Nomination Committee, the majority of which are the Independent Non-executive Directors, are as follows:

Mr. Ye Maoxin *(Committee Chairman)* (appointed on 1 September 2015)
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Li Jianxin
Mr. Zhou Yucheng (retired on 21 May 2015)
Mr. Shi Tinghong (resigned on 1 September 2015)

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board regularly and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Its duties include recommendations to the Board on the selection of individuals nominated for directorships, the appointment or re-appointment of Directors and succession planning for Directors. In carrying out the responsibility for identifying suitably qualified candidates to become members of the Board, the Nomination Committee will give adequate consideration to the board diversity policy. The Nomination Committee is also responsible for assessing the independence of the Independent Non-executive Directors.

During the year, the Nomination Committee reviewed the structure, size and composition of the Board. It also assessed and confirmed the independence of the Independent Non-executive Directors, and recommended to the Board regarding the nomination of Mr. Ying Wei for re-appointment as an Independent Non-executive Director.

The Nomination Committee held one meeting during the year, and the attendance record of each Committee member is disclosed below in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is empowered under the Company's Bye-laws to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. A newly appointed Director must retire and be re-elected at the first annual general meeting after his/her appointment. According to the Bye-laws of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to one-third) should retire from office by rotation, provided that the Chairman and Managing Director (if any) of the Company should not be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year.

In the spirit of good corporate governance practices, Mr. Ye Maoxin who is the Chairman of the Board, will voluntarily retire from his office by rotation at the relevant annual general meetings of the Company notwithstanding that he is not required by the Bye-laws to do so.

In accordance with the above provisions of the Bye-laws of the Company, Mr. Fong Kwok Leung, Kevin and Dr. Yuen Ming Fai shall retire from office as Directors by rotation at the forthcoming annual general meeting, and both of them are eligible for re-election.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is normally supplemented with visits to the Group's key business sites and/or meetings with the senior management of the Group.

With effect from 1 April 2012, management provides all Directors with monthly updates which give a balanced and understandable assessment of the Group's business performance, financial position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under the Listing Rules.

Under code provision A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading materials on relevant topics will be issued to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The Company Secretary of the Company provides the Directors with regular updates on corporate governance developments, the amendments to the Listing Rules and implementation of new applicable laws. During the year, the Company has organised a training session conducted by the Independent Commission Against Corruption in relation to business ethics as to ensure that the Directors fully understand the importance of integrity and are aware of the relevant laws. Individual Director had also attended seminars and/or conferences or workshops or forums relevant to his/her profession and duties as directors.

The Company has prepared a training record in order to assist the Directors to record the trainings that have undertaken. According to the records maintained by the Company, the trainings undertaken by each of the Directors during the year ended 31 December 2015 are summarised as follows:

	Trainings undertaken by Director	
Name of Director	**A**	**B**
Mr. Ye Maoxin (re-designated as Executive Director and Chairman on 1 September 2015)	✓	✓
Mr. Ji Xin	✓	✓
Mr. Wan Wai Yung	✓	✓
Mr. Fong Kwok Leung, Kevin	✓	✓
Mr. Ying Wei	✓	✓
Dr. Yuen Ming Fai	✓	✓
Mr. Li Jianxin	✓	✓
Mr. Shi Tinghong (resigned on 1 September 2015)	✓	✓
Mr. Zhou Yucheng (retired on 21 May 2015)	✓	✓

A – Attending seminar(s)/forum(s)
B – Reading materials relating to corporate governance, directors' duties and responsibilities

REMUNERATION COMMITTEE

The Board established a Remuneration Committee in December 2005 with specific terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee were revised by the Board on 28 March 2012. The revised terms of reference, which are closely aligned with the CG Code, are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

During the year and up to the date of this Corporate Governance Report, the members of the Remuneration Committee, the majority of which are the Independent Non-executive Directors, are as follows:

Mr. Li Jianxin *(Committee Chairman)* (appointed on 21 May 2015)
Mr. Ye Maoxin (appointed on 1 September 2015)
Mr. Ji Xin
Mr. Ying Wei
Dr. Yuen Ming Fai
Mr. Shi Tinghong (resigned on 1 September 2015)
Mr. Zhou Yucheng (retired on 21 May 2015)

The Remuneration Committee's role is to make recommendations to the Board on the remuneration policy and structures for Directors and senior management of the Group and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance, having regard to the interests of the shareholders. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Group. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all Executive Directors and senior management as well as reviewing and approving performance-based bonuses by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the Remuneration Committee is delegated with the specific task of ensuring that no Director is involved in deciding his own remuneration.

The Remuneration Committee shall meet as and when required to consider remuneration-related matters. During the year, the Remuneration Committee convened one meeting and the individual attendance of the members are set out in this Corporate Governance Report.

During the year, the Remuneration Committee approved the salary adjustments and performance related incentive payments to the Executive Directors and senior management, and has reviewed the remuneration policy and structures for Directors and senior management of the Group.

AUDIT COMMITTEE

The Company established its Audit Committee in December 1998 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised by the Board on 28 March 2012 in terms substantially the same as the provisions set out in the CG Code. The revised terms of reference of the Audit Committee are available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk.

The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Group's financial reporting system, internal control system, risk management system and associated procedures and arrangements to enable employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

As at the date of this Corporate Governance Report, the members of the Audit Committee, all being the Independent Non-executive Directors, are as follows:

Mr. Ying Wei *(Committee Chairman)*
Dr. Yuen Ming Fai
Mr. Li Jianxin
Mr. Zhou Yucheng (retired on 21 May 2015)

The external auditors were invited to attend meetings of the Audit Committee held during the year to discuss with the members of the Audit Committee on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each meeting of the Audit Committee. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year ended 31 December 2015.

The Audit Committee held three meetings in 2015 and the attendance record of individual member is set out in this Corporate Governance Report. In discharging its responsibilities, the Audit Committee has performed the following works during the year of 2015:

(i) reviewed the interim and annual financial statements and the related results announcements;

(ii) reviewed the change in accounting standards and assessment on potential impacts on the Group's financial statements;

(iii) reviewed the continuing connected transaction and commented on the fairness and reasonableness of the transaction;

(iv) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and

(v) made recommendation on the re-appointment of the external auditors, and approved their terms of engagement.

The Audit Committee has recommended to the Board (and the Board agrees) that, subject to shareholders' approval at the forthcoming annual general meeting, Baker Tilly Hong Kong Limited be re-appointed as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company.

ATTENDANCE RECORD OF INDIVIDUAL DIRECTOR AT MEETINGS IN 2015

	Number of Attendance/Number of Possible Attendance					
	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting	Special General Meeting
Executive Directors						
Mr. Ye Maoxin (re-designated as Executive Director and Chairman on 1 September 2015)	5/5	3/3	–	–	0/1	1/2
Mr. Ji Xin	10/10	3/3	1/1	1/1	1/1	2/2
Mr. Wan Wai Yung	10/10	3/3	–	–	1/1	2/2
Mr. Fong Kwok Leung, Kevin	10/10	3/3	–	–	1/1	2/2
Mr. Shi Tinghong (resigned on 1 September 2015)	9/9	2/2	1/1	1/1	1/1	2/2
Independent Non-executive Directors						
Mr. Ying Wei	5/5	2/3	1/1	1/1	1/1	1/2
Dr. Yuen Ming Fai	5/5	3/3	1/1	1/1	1/1	1/2
Mr. Li Jianxin	5/5	3/3	1/1	1/1	1/1	1/2
Mr. Zhou Yucheng (retired on 21 May 2015)	1/1	1/1	–	1/1	0/1	–

In the above meetings, certain Directors were unable to attend the meeting(s) due to business trips or other commitments.

AUDITOR'S REMUNERATION

During the year, Baker Tilly Hong Kong Limited, the current auditor of the Company (which for the purpose includes any entity under common control, ownership or management with the auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and non-audit services to the Group:

(i) Audit services;

(ii) Non-audit service – agreed-upon procedures for continuing connected transactions and results announcements; and

(iii) Non-audit service – tax advisory services.

Remunerations paid for the above audit services and non-audit services were approximately HK$3,964,000 and approximately HK$631,000 respectively.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The consolidated financial statements of the Company for the year ended 31 December 2015 have been reviewed by the Audit Committee and audited by the external auditor, Baker Tilly Hong Kong Limited. The Directors acknowledged their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the external auditor about their reporting responsibilities is set out in the Independent Auditor's Report of this Annual Report.

INTERNAL CONTROLS

The Board has overall responsibilities for maintaining sound and effective internal control systems of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures of the Group. The management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Company has an independent internal audit team, which plays a major role in monitoring the corporate governance of the Group and providing objective assurance to the Board that a sound internal control system is maintained and operated by the management. The head of the internal audit team directly reports to the Chairman of the Board and the Audit Committee on audit matters.

By adopting a risk-based approach to evaluate risk level on control environment, the internal audit team plans internal audit schedules annually in consultation with, but independent of, the management, and the audit plan is submitted to the Audit Committee for approval. The annual audit work plan covers major activities and processes of the Group's operating business. Moreover, ad hoc reviews will be performed on specific areas of concern identified by the Audit Committee and the management.

The Board has reviewed and considered that the resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget are adequate during the year under review. The Board has reviewed the effectiveness of the Group's internal controls and considered that key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with the Listing Rules and all other applicable laws and regulations.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary, Mr. Lee Che Keung, is a full time employee of the Company and reports to the Chairman of the Board. He is responsible to the Board for ensuring that procedures are followed and that all applicable laws, rules and regulations are complied with. The Company Secretary supports the Board by ensuring good information flow within the Board and is also a source of advice to the Chairman and to the Board on corporate governance and the implementation of the CG Code. The biography of Mr. Lee is set out on page 11 of this Annual Report.

Mr. Lee has duly complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules for the year ended 31 December 2015.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

The Company has set up a corporate website at http://www.fongs.com at which relevant information including the latest developments of the Group will be announced. The website offers the latest information regarding various aspects of the Group to investors and the public. Shareholders and investors may also write directly to the Company's principal place of business in Hong Kong at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong.

Enquiries are dealt with in an informative and timely manner. The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. The Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

The Company's notice to shareholders for the 2015 AGM was sent to shareholders at least 20 clear business days before such meeting and notices of the special general meetings were also sent to shareholders at least 10 clear business days before such meetings. The Chairman of the Board and the external auditors were available at the 2015 AGM held on 21 May 2015 to answer questions from the shareholders. The Chairman of the 2015 AGM had explained the procedures for conducting a poll during the meeting.

Code provision A.6.7 of the CG Code stipulates that Independent Non-executive Directors and other Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Mr. Ye Maoxin (a Non-executive Director) was unable to attend the 2015 AGM and the special general meeting of the Company held on 21 May 2015, Mr. Zhou Yucheng (an Independent Non-executive Director) was unable to attend the 2015 AGM held on 21 May 2015 and Mr. Ying Wei, Dr. Yuen Ming Fai and Mr. Li Jianxin (each an Independent Non-executive Director) were unable to attend the special general meeting of the Company held on 11 August 2015 due to their respective unavoidable business engagement.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Bye-laws, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the rights of voting at general meetings may request the Company to convene a special general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of Directors of the Company. Contact details are as follows:

Address: 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong
(For the attention of the Board of Directors)

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) at the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Bye-laws. An up to date version of the Bye-laws is available on the Company's website at http://www.fongs.com and the Stock Exchange's website at http://www.hkexnews.hk. Shareholders may refer to the Bye-laws for further details on their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules. The Chairman of the meeting will ensure that an explanation is provided regarding the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. The poll voting results will be posted on the website of the Stock Exchange at http://www.hkexnews.hk and that of the Company at http://www.fongs.com as soon as practicable after the relevant general meetings.

On behalf of the Board

Ye Maoxin
Chairman

Hong Kong, 23 March 2016

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

GROUP PHILOSOPHY

The Group is committed to maintaining corporate social responsibility, adhering to the business philosophy of "integrity-based, technology-driven and customer-oriented" to practice its core values of "integrity and win-win". Innovation is the driving force behind the success of the Group. As a leading dyeing and finishing machine manufacturer in the world, we embrace changes, continuously explore and attempt new and more effective concepts and methods, in order to launch new technologies and new products. The Group has been working diligently towards achieving long-term sustainable growth of its business while safeguarding stakeholders' interests, and addressing social and environmental concerns.

WORKING QUALITY

The Group appreciates talents and regards them as valuable asset of the Group. The Group is committed to providing a safe and healthy environment for the staff, encouraging career development and training as well as cultivating talents experienced in technology and management to carry forward the harmonious and stable employment relationship. The Group had its overall headcount of approximately 4,400 as at 31 December 2015.

Working Environment

The Group places great emphasis on growth of employees in a harmonious internal atmosphere. To effectively tap on human resources, fully motivate employees' enthusiasm and creativity and encourage them performing fruitfully, the Group adheres to the approach of giving priority to efficiency with due consideration to fairness, focusing on both teamwork and individual performance and linking individual compensation to corporate profits. The Group also promotes a healthy living style with work-life balance, providing a wide range of benefits including comprehensive medical insurance coverage, retirement schemes, paid leave and other leaves for marriage, maternity and bereavement in addition to statutory holidays.

Development and Training

The Group aims to create an environment of continuous improvement in which our staff are encouraged to pursue excellence at work and career development. Training and development programmes, including induction programs, in-house training courses, external courses and seminars are provided on an ongoing basis throughout the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

The Group supports environmental protection and has increased investment on research and development of energy-saving and environmentally-friendly solutions for the textile industry.

Externally, as the global community has placed greater importance on environmental protection, many customers need to upgrade their prevailing dyeing and finishing machines in order to improve their product quality and production capacity, as well as to be compliant with the new and more demanding emission standards. The Group, as a leading dyeing and finishing machine manufacturer in the world, actively strives to providing our customers with high-efficiency, energy-saving and environmentally-friendly dyeing and finishing equipment. For instance, the Group's patented SYN-8 high temperature airflow dyeing machine figured by its low electricity consumption and liquor ratio was granted the "Machinery and Machine Tools Design Award" in the 2013 Hong Kong Awards for Industries and "First Prize in Science and Technology of Textile Vision 2014" by the China National Textile and Apparel Council.

Internally, in strict compliance with national environmental regulations, the Group proactively shoulders environmental responsibility by advancing technological innovations, enhancing resource utilisation efficiency and promoting energy conservation and emission reduction in its production processes. In order to enhance productivity and save energy, fully automated or semi-automated equipment and systems are used in our production plant.

The Group is principally engaged in manufacturing machinery and equipment and parts, without large quantity of direct emission of waste gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. The Group also takes initiatives for full recycling of waste materials to lessen the environmental impact. Our casting workshops are equipped with waste gas purifier plus circulating spray process to reduce odors and gas emission so as to ensure the waste gas treatment to meet the local emission standard.

On 28 March 2014, the Group had entered into a co-operation agreement with a third party for the redevelopment of its industrial land in Buji, Shenzhen by way of urban renewal whereby the Group is scheduled to relocate its entire production facilities to Zhongshan Linhai Industrial Park starting from 2017. This relocation project, while eliminating obsolete production facilities to substantially upgrade production process and equipment, will allow our Group to relocate from living quarters to an industrial park, which will support urban construction and make a contribution to integrated urban planning and environment protection in Shenzhen.

Responding to the government's call on environment protection and energy saving, the Group continues to implement green office practices, such measures include the using of energy-saving lightings and recycled paper, minimising use of paper, reducing energy consumption by switching off idle lightings, computers and electrical appliances, use of teleconferencing as an alternative to travel.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OPERATING PRACTICES

The Group operates in strict accordance with laws and regulations with an aim to maximise corporate value and shareholders' interest. In the course of development, the Group takes heed of stakeholders' interest in pursuit of harmony and mutual benefit with its shareholders, employees, customers, suppliers and other stakeholders.

Corporate Governance

With a focus on standards and efficient operations, the Group is in the course of formulating a framework on the Rules of the Board of Directors with well-defined board composition and roles. Under the corporate governance system, the four powers namely ownership, decision-making, supervision and management are established on a rational, independent, check-and-balance, intervention-free and coordinated basis, providing an impetus for the Group's sustainable growth.

Dividend Policy

The Company intends to provide its shareholders with semi-annual dividends in an aggregate amount per year of approximately 20-40% of the Company's annual consolidated net profit subject to a number of factors including business prospects, capital requirements and surplus, growth or expansion strategy and other factors considered relevant by the Board.

Whilst the dividend policy reflects the Board's current views on the Group's financial and cash-flow position, the dividend policy will be continuously reviewed from time to time. It is the policy of the Board, in recommending dividends, to allow shareholders to participate in the Company's profit as well as to retain adequate reserves for future growth.

Customers

Customers comes first is our philosophy in product design and services, therefore, the Group endeavors to provide customers with satisfying products and services. Group staff have an acute judgment on market and customers. Through technology and services, customer requirements are satisfied and steered quickly, and through continuous improvements in customer experience, we can create value for customers and acquire competitive advantages.

Suppliers

The Group adheres to open, fair and transparent criteria in selecting suppliers and service providers, and has established a supplier evaluation system in terms of price, quality, cost, delivery and after-sales service. The Group will carry out long-term quality monitoring and conduct regular reviews on all suppliers as well as casual examinations on different suppliers to ensure sustainable quality material supplies and services.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Intellectual Property

The Group has developed its brands and technologies for its products and therefore the protection of the Group's intellectual property rights is of critical importance. It is the Group's policy to register trademarks and invention patents in most of the major countries where such trademarks or patents are used or will be used in the near future. The Group will take appropriate steps to police infringements of its intellectual property rights and take necessary proceedings to protect its intellectual property rights.

Anti-corruption

The Group values credibility and integrity and follows the principle of fairness in its daily operations. At the same time, the Group has clarified its determined stance on fighting against corruption and deception to all employees, suppliers and business partners. Appropriate binding terms have been introduced accordingly to respective contracts to ensure the relevant parties acted under the Group's requirement.

All staffs are expected to observe ethical, personal and professional conduct. In additional to the Staff Code of Conduct on anti-bribery and anti-corruption, the Group has established whistle-blowing system and procedures, whistle-blowers of verified cases will be rewarded accordingly.

During the year ended 31 December 2015, the Group did not identify any corruption or bribe-taking case.

Giving back to Society

The Group always bears in mind to give back to society and actively participates in charity events.

Since 2003, the Group has granted annual scholarships and prizes to outstanding engineering students of certain local universities to stimulate their initiatives in their academic studies in the hope that they will make positive contribution to the society in the coming days.

During the year ended 31 December 2015, the Group also made charitable donations amounting to approximately HK$158,000. The Group will continue to support and participate in other public welfare activities.

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company.

The subsidiaries of the Company are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products. The activities of its principal subsidiaries are set out in Note 38 to the consolidated financial statements.

Further review and analysis of these business activities, including the risks and uncertainties facing the Group and likely future developments in the Group's businesses, are set out in the Chairman's Statement and Management Discussion and Analysis sections on pages 3 to 4 and pages 12 to 22 of this Annual Report respectively. These review and analysis form part of this Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 55 to 56.

The Board recommended the payment of a final dividend of 3 HK cents per share with a par value of HK$0.05 each, totalling approximately HK$33,087,000 in respect of the year to shareholders whose names appear on the register of members on 8 June 2016. The proposed final dividend for the year ended 31 December 2015 was approved at the Company's board meeting held on 23 March 2016. Details of the dividends for the year ended 31 December 2015 are set forth in Note 11 to the consolidated financial statements.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 23 May 2016 to Wednesday, 25 May 2016, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on Wednesday, 25 May 2016 ("2016 AGM"), all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 20 May 2016.

Subject to the approval of the proposed final dividend at the 2016 AGM, the register of members of the Company will be closed from Monday, 6 June 2016 to Wednesday, 8 June 2016, both days inclusive, for the purpose of determining the entitlements of the shareholders to the proposed final dividend. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 June 2016. Dividend warrants will be despatched on Friday, 24 June 2016.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, the aggregate amount of revenue attributable to the Group's five largest customers represented less than 10% of the Group's total revenue.

The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 23% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 8% of the total purchases.

None of the Directors, their associates, or any shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, has any interest in the Group's five largest suppliers or customers.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2015 were as follows:

	HK$'000
Contributed surplus	23,033
Retained profits	199,522
	222,555

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay dividend, or make distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors:

Mr. Ye Maoxin *(Chairman)*	(re-designated as Executive Director and Chairman on 1 September 2015)
Mr. Ji Xin *(Chief Executive Officer)*	
Mr. Wan Wai Yung	
Mr. Fong Kwok Leung, Kevin	
Mr. Shi Tinghong *(Chairman)*	(resigned on 1 September 2015)

Non-executive Director:

Mr. Ye Maoxin *(Vice-Chairman)*	(re-designated as Executive Director and Chairman on 1 September 2015)

Independent Non-executive Directors:

Mr. Ying Wei	
Dr. Yuen Ming Fai	
Mr. Li Jianxin	
Mr. Zhou Yucheng	(retired on 21 May 2015)

Mr. Shi Tinghong resigned as Executive Director and Chairman on 1 September 2015 due to his new assignment in China Hi-Tech Group Corporation（中國恒天集團有限公司）, the controlling shareholder of the Company.

Mr. Zhou Yucheng retired as an Independent Non-executive Director on 21 May 2015 as he wished to devote more time to his personal and family affairs and therefore did not offer himself for re-election at the annual general meeting of the Company held on 21 May 2015.

The Company entered into a service contract with Mr. Ye Maoxin for a term of 2 years commencing on 18 May 2014. Due to the re-designation of Mr. Ye from a Non-executive Director and Vice-Chairman to an Executive Director and Chairman with effect from 1 September 2015, Mr. Ye and the Company entered into a new service contract without a fixed term of service on 23 March 2016, but such contract is determinable by either party giving to the other party not less than six months' prior written notice.

Mr. Ying Wei was appointed under a contract for a term of 2 years commencing on 1 September 2013 and expiring on 31 August 2015. Upon expiry, his term of office has been extended to 31 August 2017.

Dr. Yuen Ming Fai was appointed under a contract for a term of 2 years commencing on 1 September 2014 and expiring on 31 August 2016.

Mr. Li Jianxin was appointed under a contract for a term of 2 years commencing on 1 July 2014 and expiring on 30 June 2016.

The Company has also entered into service contracts with each of the other Executive Directors.

The Company has received the annual confirmations of independence from all Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers them to be independent.

In accordance with the Company's Bye-laws, Mr. Fong Kwok Leung, Kevin and Dr. Yuen Ming Fai will retire from office at the forthcoming annual general meeting. The retiring Directors are eligible for re-election and have agreed to offer themselves for re-election at the forthcoming annual general meeting.

Other than as disclosed above, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 December 2015, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long position in shares of HK$0.05 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Fong Kwok Leung, Kevin	Beneficial owner	3,100,000	0.28%
	Held by spouse	200,000	0.02%
		3,300,000	0.30%
Mr. Wan Wai Yung	Beneficial owner	4,036,000	0.36%
	Corporate interest (Note)	2,627,000	0.24%
		6,663,000	0.60%

Note: Mr. Wan Wai Yung is deemed to be interested in 2,627,000 shares held by Campbell and Company Limited as he wholly owns Campbell and Company Limited.

DIRECTORS' REPORT

Save as disclosed above and other than certain nominee shares in subsidiaries held by the Directors in trust for the Company or its subsidiaries, none of the Directors, chief executive nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2015.

SHARE OPTIONS

On 26 May 2003, the Company adopted a share option scheme (the "Scheme") which provides incentives to any participants to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. The Scheme expired on 25 May 2013. No share options were granted since the adoption of the Scheme.

The Company adopted a new share option scheme (the "New Scheme") at the annual general meeting of the Company held on 21 May 2015 for the purpose of providing incentive to Participants (as defined in the New Scheme) to contribute to the Group and enabling the Group to recruit and retain high-calibre employees and attracting human resources that are valuable to the Group. The New Scheme shall be valid and effective for a period of ten years commencing on the adoption date after which period no further share options shall be offered or granted but the provisions of the New Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted or exercised prior thereto.

Particulars of the New Scheme and a summary of the movements of the share options, which were granted under the New Scheme during the year ended 31 December 2015, are set out in Note 33 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the New Scheme as disclosed in the section headed "Share Options" above, no equity-linked agreements were entered into by the Group, or existed during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBT SECURITIES

Other than the share option scheme disclosed above, at no time during the year was the Company or its subsidiaries, a party to any arrangements to enable the Directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2015, the Group entered into the following transaction which is defined in Chapter 14A of the Listing Rules as "continuing connected transactions" and is exempted from (unless specified otherwise) the independent shareholders' approval requirements, but is subject to the reporting and announcement requirements set out in Chapter 14A of the Listing Rules.

The Group entered into the following tenancy agreement with Sou Lam Company, Limited ("Sou Lam"). Sou Lam is wholly beneficially owned by Mr. Fong Sou Lam who is the Chairman Emeritus and a substantial shareholder of the Company.

On 30 December 2013, Fong's National Engineering Company, Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Sou Lam for the use of a portion of a factory building by the Group as general office as well as for industrial or godown purposes for a term of three years from 1 January 2014 to 31 December 2016. Details of the transaction were set out in the announcement of the Company dated 31 December 2013. The total rental paid by the Group to Sou Lam for the year ended 31 December 2015 amounted to approximately HK$11,064,000.

Pursuant to Rule 14A.56 of the Listing Rules, the Company has engaged the auditor of the Company to perform certain work 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 Board has received a letter of confirmation from the auditor stating that the above continuing connected transaction (i) has been approved by the Board; (ii) has been conducted in accordance with the relevant agreements governing the relevant transactions; and (iii) the aggregate amounts incurred in 2015 have not exceeded the annual cap disclosed in the previous announcement. The auditor issued its unqualified letter containing its findings and conclusions in respect of the transaction disclosed above in accordance with Rule 14A.56 of the Listing Rules. The Company provided a copy of the said letter to the Stock Exchange.

In the opinion of the Independent Non-executive Directors of the Company, the above continuing connected transaction (i) is in the usual and ordinary course of businesses of the Group; (ii) was conducted on normal commercial terms; (iii) was conducted on the terms of the relevant agreement governing that transaction, which are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iv) did not exceed the annual cap amount disclosed in the previous announcement during the year ended 31 December 2015.

MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2015, the Group entered into certain transactions with "related parties" as defined under the applicable accounting standards. Details of the material related party transactions are disclosed in Note 37 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Other than the continuing connected transaction as disclosed above, no other transactions, arrangements and contracts of significance in relation to which the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2015 or at any time during that year.

PERMITTED INDEMNITY PROVISIONS

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the year ended 31 December 2015. The Company has maintained liability insurance to provide appropriate cover for the Directors of the Company and its subsidiaries.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

In accordance with the requirements under Rule 13.21 of the Listing Rules, the Board reported below details of loan facilities which exist at any time during the year ended 31 December 2015 and up to the date of this Annual Report and include conditions relating to specific performance of the controlling shareholder of the Company.

(i) On 17 March 2012, certain indirect wholly-owned subsidiaries of the Company accepted the renewal of the banking facilities letter offered by a bank in relation to various banking facilities being made available to the Group, such facilities include a new 4-year term fixed loan of US$40 million. The terms and conditions of the term fixed loan include, inter alia, a condition to the effect that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）, a controlling shareholder of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

On 11 September 2014, the Group accepted the renewal of the banking facilities (the "Renewed Facilities") offered by the bank. The Renewed Facilities include a new 3-year term fixed loan of HK$300 million and have been used for refinancing some of the existing banking facilities of the Group and financing the general corporate fund requirements of the Group.

The terms and conditions of the Renewed Facilities include, inter alia, the same condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）, a controlling shareholder of the Company currently holding approximately 55.8% interest of the Company, ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the two said term fixed loans.

(ii) On 13 November 2013, Fong's National Engineering Company, Limited (as borrower) accepted the banking facilities offered by a bank (as lender) in relation to a new 3-year term loan of a principal amount of US$30 million. The term fixed loan will be used for the construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises. The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation（中國恒天集團有限公司）undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

On 8 July 2015 and 16 November 2015, the Group accepted the renewal of the banking facilities to the extent of approximately HK$367 million (the "Renewed Facilities") offered by the bank. The Renewed Facilities include the 3-year term fixed loan of US$30 million and other trade finance facilities.

The terms and conditions of the Renewed Facilities include, inter alia, the same condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the Renewed Facilities.

(iii) On 28 November 2013, Fong's National Engineering Company, Limited (as borrower) accepted the banking facilities offered by a bank (as lender) in relation to a 3-year term loan facility of a principal amount of HK$150 million. The term fixed loan will be used for construction cost of buildings and facilities as well as purchase of production equipment in respect of the new Zhongshan factory premises. The terms and conditions of the term fixed loan include, inter alia, a condition that China Hi-Tech Group Corporation（中國恒天集團有限公司）undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

On 28 October 2015, the Group accepted the renewal of the banking facilities to the extent of approximately HK$317 million (the "Renewed Facilities") offered by the bank. The Renewed Facilities include the 3-year term fixed loan of the outstanding principal amount of approximately HK$142 million and other trade finance facilities.

The terms and conditions of the Renewed Facilities include, inter alia, the same condition that it will be an event of default if China Hi-Tech Group Corporation（中國恒天集團有限公司）ceases to maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the Renewed Facilities.

(iv) On 29 July 2015, Fong's National Engineering Company, Limited (as borrower) accepted a 3-year term loan facility of HK$100 million offered by a bank (as lender). The terms and conditions of the facilities include, inter alia, a condition that China Hi-Tech Group Corporation (中國恒天集團有限公司) undertakes it will at all times maintain not less than 51% of shareholding (whether directly or indirectly) of the Company throughout the life of the term fixed loan.

Save as disclosed above, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December 2015 and as at the date of this Annual Report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2015, the register maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company as follows:

Long position in shares of HK$0.05 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
China Hi-Tech Group Corporation	Corporate interests (Note A)	615,408,140	55.80%
Mr. Fong Sou Lam	Beneficial owner	48,800,000	4.43%
	Held by spouse	10,000,000	0.91%
	Corporate interests (Note B)	126,104,220	11.43%
		184,904,220	16.77%

Note A: By virtue of the SFO, China Hi-Tech Group Corporation is deemed to be interested in 615,408,140 shares held by its two wholly-owned subsidiaries as follows:

(i) Newish Trading Limited – 257,617,640 shares
(ii) China Hi-Tech Holding Co., Ltd. – 357,790,500 shares

Mr. Ye Maoxin, an Executive Director, is a director of both Newish Trading Limited and China Hi-Tech Holding Co., Ltd.

Mr. Ji Xin, an Executive Director, is a director of China Hi-Tech Holding Co., Ltd.

Note B: Mr. Fong Sou Lam is deemed to be interested in 126,104,220 shares by virtue of him being beneficially interested in (i) the entire share capital of Loyal Mate Limited which in turn beneficially owns 5,100,000 shares; and (ii) the entire issued share capital of GBOGH Assets Limited which in turn beneficially owns the entire share capital of the following companies which in turn beneficially own an aggregate of 121,004,220 shares as follows:

(i) Bristol Investments Limited – 16,000,000 shares
(ii) Polar Bear Holdings Limited – 78,000,000 shares
(iii) Sheffield Holdings Company Limited – 27,004,220 shares

Save as disclosed above, as at 31 December 2015, the Company had not been notified of any person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$158,000.

EMOLUMENT POLICY

The Group's emolument policy, including salaries and bonuses, is in line with the local practices where the Company and its subsidiaries operate. The emolument policy of the Group is reviewed by the Remuneration Committee of the Company regularly, making reference to legal framework, market conditions and performance of the Group and individual employee.

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.

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

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2015 and as at the date of this Annual Report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued shares being held by the public as required under the Listing Rules.

DIRECTORS' REPORT

AUDITOR

At the annual general meeting held on 21 May 2015, the shareholders approved the re-appointment of Baker Tilly Hong Kong Limited as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company.

An ordinary resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Baker Tilly Hong Kong Limited as the independent auditor of the Company.

On behalf of the Board

Ji Xin
Director

Hong Kong, 23 March 2016

BAKER TILLY
HONG KONG | 天職香港

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHTC FONG'S INDUSTRIES COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CHTC Fong's Industries Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 153, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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.

AUDITOR'S RESPONSIBILITY

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Baker Tilly Hong Kong Limited
Certified Public Accountants

Gao Yajun
Practising certificate number P06391

Hong Kong, 23 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTE	**2015 HK$'000**	2014 HK$'000
Revenue	5	**3,223,012**	3,415,269
Cost of sales		**(2,218,161)**	(2,311,036)
Gross profit		**1,004,851**	1,104,233
Interest income		**2,807**	2,265
Other income	9	**24,917**	24,553
Other gains (losses)	9	**667**	(4,583)
Gain on disposal of an associate	30	**153,813**	–
Selling and distribution costs		**(278,540)**	(292,927)
Administrative and other expenses		**(654,930)**	(627,889)
Finance costs	6	**(42,251)**	(51,961)
Share of results of an associate		**–**	(2,416)
Profit before tax		**211,334**	151,275
Income tax expense	7	**(45,488)**	(33,753)
Profit for the year	9	**165,846**	117,522
Other comprehensive (expense) income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(51,588)**	(32,638)
Share of changes in translation reserve of an associate		**–**	(946)
Reclassification adjustment of translation reserve upon disposal of an associate		**(8,182)**	–
		(59,770)	(33,584)
Item that will not be reclassified to profit or loss:			
Remeasurement gain (loss) on defined benefit plan		**746**	(2,408)
Other comprehensive expense for the year		**(59,024)**	(35,992)
Total comprehensive income for the year		**106,822**	81,530

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTE	**2015** HK$'000	2014 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company		**166,029**	117,901
Non-controlling interests		**(183)**	(379)
		165,846	117,522
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**107,004**	81,919
Non-controlling interests		**(182)**	(389)
		106,822	81,530
			(Restated)
Earnings per share			
Basic and diluted	12	**15.05 HK cents**	10.69 HK cents

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTE	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	13	**532,587**	564,553
Prepaid lease payments	14	**237,971**	252,292
Goodwill	15	**533,515**	533,515
Intangible assets	16	**95,778**	96,531
Available-for-sale financial assets	18	**187,210**	–
Deposits for acquisition of property, plant and equipment		**791**	1,499
Deposits for acquisition of leasehold land		**7,738**	8,047
Deferred tax assets	19	**15,222**	16,468
		1,610,812	1,472,905
Current assets			
Inventories	20	**648,523**	772,741
Trade and other receivables	21	**528,935**	540,888
Prepaid lease payments	14	**5,496**	5,696
Tax recoverable		**1,998**	927
Cash and cash equivalents	22	**443,115**	495,565
		1,628,067	1,815,817
Asset classified as held for sale	8	**–**	34,751
		1,628,067	1,850,568
Current liabilities			
Trade and other payables	23	**590,564**	699,710
Warranty provision	24	**16,099**	17,560
Tax liabilities		**22,548**	28,311
Borrowings	25	**992,813**	1,139,408
		1,622,024	1,884,989
Net current assets (liabilities)		**6,043**	(34,421)
Total assets less current liabilities		**1,616,855**	1,438,484

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTE	2015 HK$'000	2014 HK$'000
Non-current liabilities			
Borrowings	25	**100,000**	–
Deferred revenue	26	**5,281**	5,077
Deferred tax liabilities	19	**20,363**	18,785
Other payable	23	**118,781**	124,210
		244,425	148,072
Net assets		**1,372,430**	1,290,412
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	27(b)	**55,145**	55,145
Share premium and reserves		**1,317,285**	1,234,931
		1,372,430	1,290,076
Non-controlling interests		**–**	336
Total equity		**1,372,430**	1,290,412

The consolidated financial statements on pages 55 to 153 were approved and authorised for issue by the Board of Directors on 23 March 2016 and are signed on its behalf by:

Ye Maoxin
Director

Ji Xin
Director

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2014	55,145	157,261	–	2,370	160,445	845,955	25,582	–	1,246,758	725	1,247,483
Profit (loss) for the year	–	–	–	–	–	117,901	–	–	117,901	(379)	117,522
Exchange difference arising on translation	–	–	–	–	(32,628)	–	–	–	(32,628)	(10)	(32,638)
Share of changes in translation reserve of an associate	–	–	–	–	(946)	–	–	–	(946)	–	(946)
Remeasurement loss on defined benefit plan	–	–	–	–	–	(2,408)	–	–	(2,408)	–	(2,408)
Other comprehensive expense for the year, net of tax	–	–	–	–	(33,574)	(2,408)	–	–	(35,982)	(10)	(35,992)
Total comprehensive (expense) income for the year	–	–	–	–	(33,574)	115,493	–	–	81,919	(389)	81,530
Final dividend for 2013 paid	–	–	–	–	–	(22,058)	–	–	(22,058)	–	(22,058)
Interim dividend for 2014 paid (Note 11)	–	–	–	–	–	(16,543)	–	–	(16,543)	–	(16,543)
At 31 December 2014	55,145	157,261	–	2,370	126,871	922,847	25,582	–	1,290,076	336	1,290,412

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000 (Note)	Share option reserve HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	55,145	157,261	–	2,370	126,871	922,847	25,582	–	1,290,076	336	1,290,412
Profit (loss) for the year	–	–	–	–	–	166,029	–	–	166,029	(183)	165,846
Exchange difference arising on translation	–	–	–	–	(51,589)	–	–	–	(51,589)	1	(51,588)
Reclassification adjustment of translation reserve upon disposal of an associate	–	–	–	–	(8,182)	–	–	–	(8,182)	–	(8,182)
Remeasurement gain on defined benefit plan	–	–	–	–	–	746	–	–	746	–	746
Other comprehensive (expense) income for the year, net of tax	–	–	–	–	(59,771)	746	–	–	(59,025)	1	(59,024)
Total comprehensive (expense) income for the year	–	–	–	–	(59,771)	166,775	–	–	107,004	(182)	106,822
Acquisition of non-controlling interests without change of control (Note 28)	–	–	(581)	–	–	–	–	–	(581)	(154)	(735)
Effects of share options (Note 33)	–	–	–	–	–	–	–	3,503	3,503	–	3,503
Final dividend for 2014 paid (Note 11)	–	–	–	–	–	(27,572)	–	–	(27,572)	–	(27,572)
At 31 December 2015	55,145	157,261	(581)	2,370	67,100	1,062,050	25,582	3,503	1,372,430	–	1,372,430

Note: The contributed surplus of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the entire issued share capital of Fong's Manufacturers Company Limited, the then holding company, acquired pursuant to a corporate reorganisation on 13 September 1990.

The accompanying notes form part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**211,334**	151,275
Adjustments for:		
Interest expense	**32,444**	38,908
Interest income	**(2,807)**	(2,265)
Share of results of an associate	**–**	2,416
Depreciation and amortisation	**88,435**	97,991
Allowance for doubtful debts	**2,198**	2,181
Allowance for inventories	**2,081**	4,973
Bad debts written off	**2,202**	–
Gain on bargain purchase	**(8,135)**	–
Gain on disposal of an associate	**(153,813)**	–
Share-based payments	**3,503**	–
Loss on disposal of property, plant and equipment	**820**	224
Recognition of government grants	**(1,673)**	(585)
Warranty provision expense	**22,108**	15,588
Operating cash flows before movements in working capital	**198,697**	310,706
Decrease (increase) in inventories	**114,782**	(15,768)
Decrease (increase) in trade and other receivables	**13,498**	(22,766)
Decrease in trade and other payables	**(96,621)**	(154,308)
Utilisation of warranty provision	**(23,048)**	(24,118)
Cash generated from operations	**207,308**	93,746
Hong Kong Profits Tax paid	**(11,205)**	(12,164)
Overseas income tax and the PRC Corporate Income Tax paid	**(41,205)**	(23,266)
Hong Kong Profits Tax refunded	**–**	73
Overseas income tax and the PRC Corporate Income Tax refunded	**28**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES	**154,926**	58,389

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	**(791)**	(1,499)
Proceeds from disposal of property, plant and equipment	**2,835**	1,002
Payments for acquisition of a subsidiary, net of cash and cash equivalents acquired	**(174,554)**	–
Proceeds from disposal of an associate	**180,382**	–
Interest received	**2,807**	2,265
Purchases of property, plant and equipment	**(70,412)**	(38,198)
Receipt of government grants	**2,065**	5,662
Receipt of deposit from urban renewal project	**–**	124,210
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(57,668)**	93,442
FINANCING ACTIVITIES		
Repayment of borrowings	**(1,386,708)**	(1,421,742)
Dividends paid	**(27,572)**	(38,601)
Interest paid on borrowings	**(35,416)**	(40,743)
New borrowings raised	**1,357,435**	1,399,781
NET CASH USED IN FINANCING ACTIVITIES	**(92,261)**	(101,305)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,997**	50,526
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**495,565**	469,670
Exchange loss on cash and cash equivalents	**(57,447)**	(24,631)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**443,115**	495,565

The accompanying notes form part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1 GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Directors of the Company (the "Directors") consider that the Company's parent company is China Hi-Tech Holding Company Limited, a company incorporated in Hong Kong, and its ultimate holding company is China Hi-Tech Group Corporation（中國恒天集團有限公司）, a company established in the People's Republic of China (the "PRC"). China Hi-Tech Group Corporation（中國恒天集團有限公司）is a state-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("SASAC"). The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" in this Annual Report.

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

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the manufacture and sale of dyeing and finishing machines, trading of stainless steel supplies and the manufacture and sale of stainless steel casting products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

In the current year, the Group has applied the following amendments to HKFRSs that are issued by the HKICPA.

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

The adoption of these amendments 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 these consolidated financial statements.

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
Amendments to HKAS 1	Disclosure Initiative[2]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exemption[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of what the impact of these amendments and new standards would be in the period of initial application, but not yet in a position to state whether these amendments and new standards would have a significant impact on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "CO").

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value 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.

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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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 and other comprehensive income 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 in line with the Group's accounting policies.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, 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 (see the accounting policy below); and

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations *(Continued)*

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

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

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

(e) Investment in an associate

An associate is an entity over which the investor 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.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case is accounted for in accordance with HKFRS 5. Under the equity method, investment in an associate 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. When the Group's share of losses of an associate equals or exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment in an associate *(Continued)*

An investment in an associate is accounted for using equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment in an associate *(Continued)*

When the Group reduces its ownership interest in an associate 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 its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(f) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

After the disposal takes place, the Group accounts for any retained interest in the associate in accordance with HKAS 39 unless the retained interest continues to be an associate, in which case the Group uses the equity method (see Note 3(e)).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets

Intellectual property rights

Intellectual property rights acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intellectual property rights with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful live and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Trademarks and licenses

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licenses have an indefinite useful live and is thus not subject to amortisation.

Trademarks and licenses are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising from derecognition of intangible assets are measured at the difference between net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

Research and development expenditure *(Continued)*

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation of internally-generated intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

(h) Revenue recognition

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Revenue recognition *(Continued)*

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

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

Commission income and management fee income are recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

(i) Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress and freehold land as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property, plant and equipment *(Continued)*

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction and freehold land, 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.

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

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

(j) Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid operating lease payments and are charged to profit or loss over the lease terms.

(k) Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

(l) 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 lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leasing *(Continued)*

Leasehold land and building *(Continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(m) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Foreign currencies *(Continued)*

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

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(o) 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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Government grants *(Continued)*

As explained in Note 26, certain government grants obtained are treated as deferred revenue in the statement of financial position and credited to profit or loss in accordance with conditions set by the government body.

(p) Taxation

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

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

Deferred tax is recognised on 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, 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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Taxation *(Continued)*

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the 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 business combination.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(r) Retirement benefits costs

Payments to defined contribution retirement benefits plans, state-managed retirement benefit schemes and the Hong Kong Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefits plans, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Retirement benefits costs *(Continued)*

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions on obligation are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss. Any difference between the implicit and actual return on plan assets are charged as remeasurements to other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to profit or loss in the period to which the contributions relate.

(s) Equity-settled share-based payment transactions

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

(t) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

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 liabilities, at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into available-for-sale financial assets ("AFS financial assets") 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial instruments *(Continued)*

Financial assets *(Continued)*

AFS financial assets (Continued)

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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 trade and other receivables 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).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial 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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, 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 of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 entered and the definitions of a financial liability and an equity instrument. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Other financial liabilities

Other financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction cost 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 other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Financial instruments *(Continued)*

Derecognition *(Continued)*

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 and accumulated in equity 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.

(u) Provisions

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

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4 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.

Income taxes

As at 31 December 2015, a deferred tax asset of approximately HK$9,783,000 (2014: approximately HK$9,888,000) in relation to unused tax losses of approximately HK$42,787,000 (2014: approximately HK$43,839,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of approximately HK$307,952,000 (2014: approximately HK$257,882,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material recognition or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes places.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The carrying amount of property, plant and equipment at 31 December 2015 is approximately HK$532,587,000 (2014: approximately HK$564,553,000). More details are given in Note 13.

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of future cash flows expected to arise from the products developed and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of goodwill and other intangible assets at 31 December 2015 are approximately HK$533,515,000 (2014: approximately HK$533,515,000) and approximately HK$95,778,000 (2014: approximately HK$96,531,000) respectively with no impairment loss recognised.

Allowances for inventories

The management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale and use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. If the market conditions were deteriorating and more obsolete and slow-moving inventory items being identified, additional allowances may be required. As at 31 December 2015, the carrying amount of inventories is approximately HK$648,523,000 (2014: approximately HK$772,741,000).

4 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of trade receivables is approximately HK$339,299,000 (2014: approximately HK$296,463,000) (net of allowance for doubtful debts of approximately HK$8,665,000 (2014: approximately HK$7,423,000)). More details are given in Note 21.

Provision for warranties

The policy for provision of warranties of the Group is based on the management's best estimate of the Group's liabilities under a 12-month warranty period granted on the sale of dyeing and finishing machines based on past experience. The actual settlement may differ from the estimation made by the management. If the amounts are settled for an amount greater than management's estimation, a future charge to profit or loss will result. Likewise, if the amounts are settled for an amount that is less than estimation, a future credit to profit or loss will result. As at 31 December 2015, the carrying amount of warranty provision is approximately HK$16,099,000 (2014: approximately HK$17,560,000). The movement of the warranty provision for the year is set out in Note 24.

5 REVENUE AND SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the performance of each group company. Specifically, the Group's reportable segments under HKFRS 8 are aggregation of operating segments based on types of goods or services delivered or provided, as follows:

1. Manufacture and sale of dyeing and finishing machines

2. Trading of stainless steel supplies

3. Manufacture and sale of stainless steel casting products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2015

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
REVENUE				
External sales	2,325,965	376,520	520,527	3,223,012
Inter-segment sales	5,768	173,608	22,927	202,303
Segment revenue	2,331,733	550,128	543,454	3,425,315
Elimination				(202,303)
Group revenue				3,223,012
Segment profit	47,107	2,580	47,278	96,965
Interest income				2,807
Finance costs				(42,251)
Gain on disposal of an associate				153,813
Profit before tax				211,334

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

The following is an analysis of the Group's revenue and results by reportable segment: *(Continued)*

For the year ended 31 December 2014

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
REVENUE				
External sales	2,514,611	430,370	470,288	3,415,269
Inter-segment sales	16,544	282,297	34,790	333,631
Segment revenue	2,531,155	712,667	505,078	3,748,900
Elimination				(333,631)
Group revenue				3,415,269
Segment profit	136,647	21,909	44,831	203,387
Interest income				2,265
Finance costs				(51,961)
Share of results of an associate				(2,416)
Profit before tax				151,275

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the results of each segment excluding interest income, finance costs, gain on disposal of an associate and share of results of an associate. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at terms agreed between relevant parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

As at 31 December 2015

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
ASSETS				
Segment assets	2,038,953	166,938	385,443	2,591,334
Available-for-sale financial assets				187,210
Unallocated corporate assets				460,335
Consolidated total assets				3,238,879
LIABILITIES				
Segment liabilities	641,988	18,598	70,139	730,725
Unallocated corporate liabilities				1,135,724
Consolidated total liabilities				1,866,449

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

The following is an analysis of the Group's assets and liabilities by reportable segment: *(Continued)*

As at 31 December 2014

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
ASSETS				
Segment assets	2,192,383	208,231	375,148	2,775,762
Asset classified as held for sale				34,751
Unallocated corporate assets				512,960
Consolidated total assets				3,323,473
LIABILITIES				
Segment liabilities	761,328	16,971	68,258	846,557
Unallocated corporate liabilities				1,186,504
Consolidated total liabilities				2,033,061

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

- all assets are allocated to operating segments other than available-for-sale financial assets, asset classified as held for sale, deferred tax assets, tax recoverable as well as cash and cash equivalents; and

- all liabilities are allocated to operating segments other than tax liabilities, deferred tax liabilities and borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2015

Amounts included in the measure of segment results or segment assets:

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
Additions to non-current assets excluding deferred tax assets and available-for-sale financial assets	**45,878**	**2,619**	**26,461**	**74,958**
Depreciation and amortisation	**68,897**	**1,932**	**17,606**	**88,435**
Loss (gain) on disposal of property, plant and equipment	**732**	**(27)**	**115**	**820**
(Reversal of allowance) allowance for inventories	**(1,512)**	**2,400**	**1,193**	**2,081**
Allowance for doubtful debts	**1,254**	**944**	**–**	**2,198**

For the year ended 31 December 2014

Amounts included in the measure of segment results or segment assets:

	Manufacture and sale of dyeing and finishing machines HK$'000	Trading of stainless steel supplies HK$'000	Manufacture and sale of stainless steel casting products HK$'000	Total HK$'000
Additions to non-current assets excluding deferred tax assets	28,087	1,148	13,203	42,438
Depreciation and amortisation	77,746	1,499	18,746	97,991
Loss (gain) on disposal of property, plant and equipment	29	(1)	196	224
Allowance for inventories	516	–	4,457	4,973
Allowance for doubtful debts	244	1,937	–	2,181

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

Reconciliation for earnings before interest, tax, depreciation and amortisation to profit before tax is as follows:

	2015	2014
	HK$'000	HK$'000
Earnings before interest, tax, depreciation and amortisation of business segments	**185,400**	301,378
Depreciation of property, plant and equipment	**(82,107)**	(90,083)
Amortisation of prepaid lease payments	**(5,575)**	(5,467)
Amortisation of intangible assets	**(753)**	(2,441)
Operating profit	**96,965**	203,387
Interest income	**2,807**	2,265
Finance costs	**(42,251)**	(51,961)
Share of results of an associate	**–**	(2,416)
Gain on disposal of an associate	**153,813**	–
Profit before tax	**211,334**	151,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

Assets are attributed to the segments based on the operations of each segment and the location of the assets.

Segment assets are summarised as below:

	2015 HK$'000	2014 HK$'000
Segment assets as allocated by business segments	**2,591,334**	2,775,762
Unallocated assets:		
Available-for-sale financial assets	**187,210**	–
Asset classified as held for sale	**–**	34,751
Deferred tax assets	**15,222**	16,468
Tax recoverable	**1,998**	927
Cash and cash equivalents	**443,115**	495,565
Total assets as per consolidated statement of financial position	**3,238,879**	3,323,473

Liabilities are attributed to the segments based on the operations of each segment. The Group's borrowings are not recognised as segment liabilities, as they are managed by finance department responsible for the Group's finance.

Segment liabilities are summarised as below:

	2015 HK$'000	2014 HK$'000
Segment liabilities as allocated by business segments	**730,725**	846,557
Unallocated liabilities:		
Tax liabilities	**22,548**	28,311
Deferred tax liabilities	**20,363**	18,785
Borrowings	**1,092,813**	1,139,408
Total liabilities as per consolidated statement of financial position	**1,866,449**	2,033,061

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located mainly in Hong Kong, the PRC and Germany.

Information about the Group's revenue from external customers is presented based on location of customers and information about its non-current assets is presented based on the geographical location of the assets, they are detailed below:

	Revenue from external customers		Non-current assets	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**1,232,590**	1,402,742	**1,236,712**	1,278,241
Hong Kong	**359,244**	388,815	**10,400**	12,849
Asia Pacific (other than the PRC and Hong Kong)	**782,074**	700,997	**134**	91
Europe	**446,749**	568,411	**161,124**	165,242
North and South America	**291,222**	270,963	**10**	14
Others	**111,133**	83,341	**–**	–
	3,223,012	3,415,269	**1,408,380**	1,456,437

Non-current assets excluded deferred tax assets and available-for-sale financial assets. The Directors considered that the cost to develop the revenue by individual countries for "Asia Pacific", "Europe", "North and South America" and "Others" are excessive and revenue included in these areas attributed to each individual country is not material.

No revenue generated from any single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2015 and 2014.

6 FINANCE COSTS

	2015	2014
	HK$'000	HK$'000
Interest on borrowings	**32,444**	38,908
Bank charges	**9,807**	13,053
	42,251	51,961

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7 INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Hong Kong Profits Tax:		
Current year	**6,332**	8,608
(Over) under provision in prior years	**(3,668)**	48
PRC Corporate Income Tax:		
Current year	**36,565**	18,535
Underprovision in prior years	**743**	1,109
Overseas income tax:		
Current year	**3,471**	2,847
Under (over) provision in prior years	**51**	(3,494)
	43,494	27,653
Deferred tax (Note 19):		
Current year	**1,994**	6,100
	45,488	33,753

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

PRC Corporate Income Tax is charged at the statutory tax rate of 25% (2014: 25%) of the assessable income as determined in accordance with the relevant PRC tax rules and regulations, except that certain subsidiaries are subject to a preferential tax rate of 15% (2014: 15%).

Taxation arising in other jurisdictions is calculated at rates prevailing in the respective jurisdictions.

7 INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 HK$'000	2014 HK$'000
Profit before tax	**211,334**	151,275
Tax at the Hong Kong Profits Tax rate of 16.5%	**34,870**	24,960
Tax effect of:		
– expenses that are not deductible for tax purpose	**15,207**	9,183
– income that are not taxable for tax purpose	**(16,220)**	(9,344)
– tax losses not recognised	**12,641**	6,121
– share of results of an associate	**–**	399
– different tax rates of subsidiaries operating in other jurisdictions	**(1,451)**	3,852
– utilisation of tax losses previously not recognised	**(80)**	(1,401)
Overprovision in prior years, net	**(2,874)**	(2,337)
Withholding tax on distributed/undistributed earnings	**3,052**	1,896
Others	**343**	424
Income tax expense for the year	**45,488**	33,753

8 ASSET CLASSIFIED AS HELD FOR SALE

On 31 August 2014, the Group entered into a sale and purchase agreement (the "Agreement") with Hengtian Real Estate Company Limited（恒天地產有限公司）, a connected party of the Company's parent company, pursuant to which the Company has conditionally agreed to dispose of 30% of the equity interests in an associate, Foshan East Asia Co., Ltd.（佛山東亞股份有限公司）, at a consideration of RMB150,000,000 (equivalent to approximately HK$181,515,000) (see Note 17).

8 ASSET CLASSIFIED AS HELD FOR SALE *(Continued)*

The Agreement had been approved by the shareholders at the special general meeting of the Company held on 18 November 2014.

No impairment loss was recognised on reclassification of the interest in an associate as held for sale as at 31 December 2014 as the Group's management expects that the fair value (estimated by an independent professional valuer) less costs of disposal is higher than the carrying amount.

Details on the disposal have been disclosed in the Company's circular dated 31 October 2014.

The disposal was completed on 17 September 2015 (see Note 30).

The summarised financial information in respect of the Group's associate classified as held for sale as at 31 December 2014 is set out below:

	2014 HK$'000
Current assets	146,018
Non-current assets	76,053
Current liabilities	(82,356)
Non-current liabilities	(23,877)
Net assets	115,838
Group's share of net assets of the associate	34,751

9 PROFIT FOR THE YEAR

	2015 HK$'000	2014 HK$'000
Profit for the year has been arrived at after (crediting) charging:		
Other income:		
Claims and compensation received	(571)	(4,671)
Income from scraps sale	(4,530)	(6,139)
Government grants	(7,150)	(1,101)
Write off of other payables	(9,730)	(4,995)
Others	(2,936)	(7,647)
Total other income	(24,917)	(24,553)
Other (gains) losses:		
Loss on disposal of property, plant and equipment	820	224
Foreign exchange loss, net	6,648	4,359
Gain on bargain purchase	(8,135)	–
Total other (gains) losses	(667)	4,583
Amortisation of intangible assets	753	2,441
Amortisation of prepaid lease payments	5,575	5,467
Depreciation of property, plant and equipment	82,107	90,083
Total depreciation and amortisation	88,435	97,991
Allowance for inventories (included in cost of sales)	2,081	4,973
Allowance for doubtful debts, net	2,198	2,181
Bad debts written off	2,202	–
Auditor's remuneration	3,964	4,000
Cost of inventories recognised as an expense	1,602,543	1,666,256
Research and development costs	57,154	41,455
Staff costs, including directors' emoluments		
Salaries, wages and other benefits	679,078	696,520
Retirement benefits scheme contributions	52,946	54,040
Total staff costs	732,024	750,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each Director were as follows:

2015	Note	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors						
Ye Maoxin	(i)	–	–	–	–	–
Shi Tinghong	(ii)	–	3,515	–	12	3,527
Ji Xin		–	4,940	–	18	4,958
Wan Wai Yung		–	3,800	8,319	288	12,407
Fong Kwok Leung, Kevin		–	2,220	–	164	2,384
Independent non-executive directors						
Li Jianxin	(iii)	192	–	–	–	192
Zhou Yucheng	(vi)	77	–	–	–	77
Ying Wei		200	–	–	–	200
Yuen Ming Fai		180	–	–	–	180
Total		649	14,475	8,319	482	23,925

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments paid or payable to each Director were as follows: *(Continued)*

2014	Note	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors						
Shi Tinghong	(ii)	–	4,071	–	14	4,085
Ji Xin		–	4,940	–	17	4,957
Wan Wai Yung		–	3,800	5,289	288	9,377
Fong Kwok Leung, Kevin		–	2,220	–	164	2,384
He Fengxian	(iv)	–	–	–	–	–
Non-executive director						
Ye Maoxin		–	–	–	–	–
Independent non-executive directors						
Li Jianxin	(iii)	90	–	–	–	90
Zhou Yucheng		200	–	–	–	200
Ying Wei		200	–	–	–	200
Yuen Ming Fai		180	–	–	–	180
Keung Wing Ching	(v)	68	–	–	–	68
Total		738	15,031	5,289	483	21,541

Note:

(i) Re-designated as Executive Director and Chairman on 1 September 2015
(ii) Resigned on 1 September 2015
(iii) Appointed on 1 July 2014
(iv) Retired on 28 February 2014
(v) Retired on 15 May 2014
(vi) Retired on 21 May 2015

For the years ended 31 December 2015 and 2014, no Director waived any emoluments and no incentive was paid to any Directors as an induction to join the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10 DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include four (2014: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2014: two) individual during the year are as follows:

	2015 HK$'000	2014 HK$'000
Salaries and other benefits	**2,642**	5,323
Retirement benefits scheme contribution	**179**	149
	2,821	5,472

The emoluments of the remaining highest paid individual fell within the following bands:

Emolument bands	Number of individual	
	2015	2014
HK$		
2,000,001 – 2,500,000	**–**	1
2,500,001 – 3,000,000	**1**	–
3,000,001 – 3,500,000	**–**	1

11 DIVIDENDS

	2015 HK$'000	2014 HK$'000
Interim dividend paid:		
Nil HK cents per share with a par value of HK$0.05 each (2014: 3 HK cents per share with a par value of HK$0.10 each)	–	16,543
Proposed final dividend:		
3 HK cents per share with a par value of HK$0.05 each (2014: 5 HK cents per share with a par value of HK$0.10 each)	**33,087**	27,572
	33,087	44,115

No interim dividend was declared in 2015 (2014: 3 HK cents per share with a par value of HK$0.10 each).

The final dividend in respect of the year ended 31 December 2015 of 3 HK cents per share with a par value of HK$0.05 each (2014: 5 HK cents per share with a par value of HK$0.10 each) has been proposed by the Directors and is subject to the approval at the forthcoming annual general meeting of the Company.

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For the year ended 31 December 2015

12 EARNINGS PER SHARE

(a) Basic earnings per share:

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

	2015	2014
	HK$'000	HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**166,029**	117,901
	'000	'000
		(Restated)
Weighted average number of ordinary shares:		
Issued ordinary shares at 1 January	**551,446**	551,446
Effect of share subdivision on 22 May 2015 (Note 27(b)(i))	**551,446**	551,446
Weighted average number of ordinary shares at 31 December	**1,102,892**	1,102,892

(b) Diluted earnings per share:

No adjustment has been made to the basic earnings per share as the outstanding share options had anti-dilutive effect on the basic earnings per share for the year ended 31 December 2015. The computation of diluted earnings per share for the year ended 31 December 2015 does not assume the exercise of the Company's outstanding share options as the exercise prices were higher than the average market price of the Company's ordinary shares and also the performance conditions for the exercise of the share options were not met.

No adjustment has been made to the basic earnings per share for the year ended 31 December 2014 in respect of dilution as the Group had no potential dilutive ordinary shares in issue during the year ended 31 December 2014.

The weighted average number of ordinary shares for 2014 above has been adjusted for the share subdivision which became effective on 22 May 2015. As a result, the basic earnings per share and diluted earnings per share for the year ended 31 December 2014 has been restated.

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds and tools HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2014	9,979	500,259	18,262	446,551	153,894	36,510	75,159	51,964	1,292,578
Currency realignment	(1,001)	(14,084)	(851)	(13,960)	(7,594)	(713)	(1,903)	(2,055)	(42,161)
Reclassification	–	1,049	–	224	7,682	–	–	(8,955)	–
Additions	–	1,378	214	16,321	11,278	2,311	5,720	5,216	42,438
Disposals	–	–	(41)	(2,796)	(10,052)	(2,857)	(1,323)	(14)	(17,083)
At 31 December 2014 and 1 January 2015	8,978	488,602	17,584	446,340	155,208	35,251	77,653	46,156	1,275,772
Currency realignment	(1,026)	(19,226)	(1,251)	(19,123)	(9,239)	(921)	(2,945)	(1,782)	(55,513)
Reclassification	–	–	411	391	264	–	278	(1,344)	–
Additions	–	133	464	10,967	9,912	2,554	3,985	46,943	74,958
Disposals	–	–	–	(4,636)	(5,831)	(1,098)	(1,312)	(17)	(12,894)
At 31 December 2015	7,952	469,509	17,208	433,939	150,314	35,786	77,659	89,956	1,282,323
ACCUMULATED DEPRECIATION									
At 1 January 2014	–	231,518	13,810	255,464	104,519	23,403	33,163	–	661,877
Currency realignment	–	(6,339)	(788)	(10,330)	(6,043)	(527)	(857)	–	(24,884)
Provided for the year	–	22,354	1,249	36,496	15,249	4,631	10,104	–	90,083
Eliminated on disposals	–	–	(37)	(2,362)	(9,924)	(2,792)	(742)	–	(15,857)
At 31 December 2014 and 1 January 2015	–	247,533	14,234	279,268	103,801	24,715	41,668	–	711,219
Currency realignment	–	(10,220)	(1,211)	(13,729)	(6,574)	(761)	(1,856)	–	(34,351)
Provided for the year	–	19,111	1,290	32,441	14,639	4,372	10,254	–	82,107
Eliminated on disposals	–	–	–	(3,422)	(3,909)	(1,042)	(866)	–	(9,239)
At 31 December 2015	–	256,424	14,313	294,558	107,957	27,284	49,200	–	749,736
CARRYING VALUE									
At 31 December 2015	7,952	213,085	2,895	139,381	42,357	8,502	28,459	89,956	532,587
At 31 December 2014	8,978	241,069	3,350	167,072	51,407	10,536	35,985	46,156	564,553

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For the year ended 31 December 2015

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, other than the freehold land and construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the terms of the leases or 5%, whichever is shorter
Leasehold improvements	10%
Plant and machinery	10% – 20%
Furniture and equipment	20% – 33%
Motor vehicles	20% – 25%
Moulds and tools	20%

An analysis of the Group's freehold land and buildings is as follows:

	2015	2014
	HK$'000	HK$'000
Buildings on land under long leases located in the PRC	**776**	801
Buildings on land under medium-term leases located in the PRC	**205,267**	231,956
Freehold land and buildings in Europe	**14,994**	17,290
	221,037	250,047

None of property, plant and equipment is pledged as at 31 December 2015 and 2014.

14 PREPAID LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Long leases	**1,531**	1,620
Medium-term leases	**241,936**	256,368
	243,467	257,988
Analysed for reporting purposes as:		
Current asset	**5,496**	5,696
Non-current asset	**237,971**	252,292
	243,467	257,988

Movement in prepaid lease payments

	2015 HK$'000	2014 HK$'000
At beginning of the year	**257,988**	269,787
Currency realignment	**(8,946)**	(6,332)
Amortisation of prepaid lease payments	**(5,575)**	(5,467)
At end of the year	**243,467**	257,988

None of the prepaid lease payments is pledged as at 31 December 2015 and 2014.

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15 GOODWILL

	2015 HK$'000	2014 HK$'000
At beginning and at end of the year	**533,515**	533,515

Goodwill acquired through business combination has been allocated to dyeing and finishing machines cash-generating units ("CGUs") for impairment testing.

The Group tests goodwill annually for impairment or more frequently, if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumption for the value-in-use calculations of the above CGUs are those regarding the discount rate and growth rate. The Group prepares cash flow forecasts derived from the most recent financial budgets of 5 years and extrapolates cash flows for the following five years with growth rate of 5% assuming the existing level of sales and production remaining the same and a discount rate of 10.73% per annum. Cash flows beyond the 5-year period are extrapolated using estimated growth rates which are consistent with prior year and the forecasts in same industry. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

16 INTANGIBLE ASSETS

	Intellectual property rights HK$'000	Trademarks and licenses HK$'000	Total HK$'000
COST			
At 1 January 2014, 31 December 2014 and 31 December 2015	36,435	90,727	127,162
ACCUMULATED AMORTISATION			
At 1 January 2014	28,190	–	28,190
Provided for the year	2,441	–	2,441
At 31 December 2014 and 1 January 2015	30,631	–	30,631
Provided for the year	753	–	753
At 31 December 2015	31,384	–	31,384
CARRYING VALUE			
At 31 December 2015	5,051	90,727	95,778
At 31 December 2014	5,804	90,727	96,531

Amortisation of approximately HK$753,000 (2014: approximately HK$2,441,000) is included in "administrative and other expenses" in the profit or loss.

Intellectual property rights above have finite useful lives, over which the assets are amortised. The amortisation rates of intellectual property rights range from 6% to 16.67% per annum.

16 INTANGIBLE ASSETS *(Continued)*

Impairment test for intangible assets with indefinite useful lives

The useful lives of the trademarks and licenses are assessed to be indefinite. The factors considered in the assessment of the useful lives of the trademarks and licenses include analysis of the market and competitive trends, product life cycles and management's long-term strategic development. Overall, these factors provided evidence that the trademarks and licenses are expected to generate long-term net cash inflows to the Group indefinitely.

The recoverable amounts of the trademarks and licenses are estimated based on value-in-use calculations by discounting future cash flows of the cash-generating unit for which the trademarks and licenses are allocated. This method considers cash flows of the subsidiaries (cash-generating unit) for the 5 years ending 31 December 2020 with subsequent transition to perpetuity. For the years following the detailed planning period, the assumed continual growth of 5% to perpetuity is used which complies with general expectations for the business. The present value of cash flows is calculated by discounting the cash flow using a pre-tax interest rate of approximately 10.73% per annum.

17 INTEREST IN AN ASSOCIATE

	2015 **HK$'000**	2014 HK$'000
Cost of unlisted investment in an associate	–	46,469
Share of post-acquisition losses and other comprehensive income	–	(11,718)
	–	34,751
Less: Asset classified as held for sale (Note 8)	–	(34,751)
	–	–

As at 31 December 2014, the associate of the Group represented a 30% interest in Foshan East Asia Co., Ltd., a sino-foreign equity enterprise registered and operated in the PRC. It acts as a holding company and its subsidiaries are engaged in the manufacture of colour woven fabrics. Major assets of the associate and its subsidiaries are certain lands located in the district of Chancheng, Foshan, the PRC with manufacturing plants erected on the lands, which are both measured at cost less accumulated depreciation and impairment, if any.

17 INTEREST IN AN ASSOCIATE *(Continued)*

In determining the value in use of the interest in an associate for impairment purpose, the management estimates the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

On 31 August 2014, the Group entered into a sale and purchase agreement to dispose of 30% of the equity interest in the associate, which had been approved by the shareholders at the special general meeting of the Company held on 18 November 2014. The Group's management expects the disposal could be completed within one year and classified it as asset held for sale at the end of the reporting period of last year (see Note 8). The disposal was completed on 17 September 2015 (see Note 30).

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

	2015 **HK$'000**	2014 HK$'000
Current assets	–	–
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–
	–	–
Revenue	–	66,935
Loss for the year	–	(8,052)
Other comprehensive expense	–	(3,155)
Total comprehensive expense	–	(11,207)

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 HK$'000	2014 HK$'000
Unlisted equity investment, at cost	187,210	–

The unlisted equity investment is measured at cost less impairment at the end of the reporting period as the Directors are of the opinion that its fair value cannot be measured reliably.

19 DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 HK$'000	2014 HK$'000
Deferred tax assets	15,222	16,468
Deferred tax liabilities	(20,363)	(18,785)
	(5,141)	(2,317)

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Allowance for doubtful debts HK$'000	Tax losses HK$'000	Unrealised profit for inventories HK$'000	Distributable profit of PRC subsidiaries HK$'000	Defined benefit obligation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2014	4,698	(3,690)	(16,561)	2,018	10,177	–	–	(3,358)
Charge (credit) to profit or loss	1,824	(1,352)	6,673	(1,827)	1,895	–	(1,113)	6,100
Credit to other comprehensive income	–	–	–	–	–	(425)	–	(425)
At 31 December 2014 and 1 January 2015	6,522	(5,042)	(9,888)	191	12,072	(425)	(1,113)	2,317
(Credit) charge to profit or loss	(198)	(156)	(541)	–	1,776	–	1,113	1,994
Charge to other comprehensive income	–	–	–	–	–	139	–	139
Currency realignment	–	–	646	–	–	45	–	691
At 31 December 2015	6,324	(5,198)	(9,783)	191	13,848	(241)	–	5,141

19 DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group had unused tax losses of approximately HK$350,739,000 (2014: approximately HK$301,721,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$42,787,000 (2014: approximately HK$43,839,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately HK$307,952,000 (2014: approximately HK$257,882,000) due to unpredictability of future profit streams.

The Group has tax losses arising in Switzerland of approximately HK$47,689,000 (2014: approximately HK$52,111,000) that will expire in one to seven years for offsetting against future taxable profits. The Group also has tax losses arising in the PRC of approximately HK$43,299,000 (2014: approximately HK$35,870,000) that will expire in one to five years for offsetting against future taxable profits. Other losses may be carried forward indefinitely.

Under the Corporate Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. A deferred tax liability of approximately HK$13,848,000 (2014: approximately HK$12,072,000) has been provided for in the consolidated financial statements in respect of such temporary differences.

20 INVENTORIES

	2015 **HK$'000**	2014 HK$'000
Raw materials	**439,501**	541,701
Work in progress	**115,497**	135,837
Finished goods	**93,525**	95,203
	648,523	772,741

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to approximately HK$1,602,543,000 (2014: approximately HK$1,666,256,000) (see Note 9). Allowance for inventories recognised during the year, as included in 'cost of sales', amounted to approximately HK$2,081,000 (2014: approximately HK$4,973,000) (see Note 9).

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21 TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**347,964**	303,886
Less: Allowance for doubtful debts	**(8,665)**	(7,423)
	339,299	296,463
Bills receivables	**105,906**	150,789
	445,205	447,252
Other receivables	**83,730**	93,636
Total trade and other receivables	**528,935**	540,888

The Group allows an average credit period of 60 days (2014: 60 days) to its trade customers.

At the end of the reporting period, the carrying amount of outstanding bills receivables of approximately HK$6,316,000 (2014: approximately HK$10,116,000) has been discounted to banks. If the bills receivables are not paid at maturity, the banks have the rights to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full amount of the bills receivables and has recognised the cash received on the transfer as unsecured borrowings (see Note 25). The Group continues to present the discounted bills receivables until maturity.

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

	2015 HK$'000	2014 HK$'000
0 – 60 days	**371,173**	356,910
61 – 90 days	**46,733**	71,007
Over 90 days	**27,299**	19,335
	445,205	447,252

21 TRADE AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. For trade receivables that are neither past due nor impaired as at the end of the reporting period, the Directors consider that trade receivables which are neither past due nor impaired are of good credit quality and there are continuous subsequent settlements from these customers.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately HK$74,032,000 (2014: approximately HK$90,342,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. For those past due but not impaired receivables, although no collateral is held, the Group has assessed the creditworthiness, past payment history and substantial settlement after the end of the reporting period, and considered that the credit quality is satisfactory. Accordingly, no impairment has been provided.

Ageing of trade receivables which are past due but not impaired

	2015	2014
	HK$'000	HK$'000
Overdue by:		
1 – 30 days	**46,733**	71,007
31 – 60 days	**12,284**	8,395
Over 60 days	**15,015**	10,940
	74,032	90,342

The Group has provided fully for all receivables past due over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally difficult to recover.

21 TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	2015 HK$'000	2014 HK$'000
At beginning of the year	**7,423**	5,242
Impairment losses recognised on receivables	**2,281**	2,414
Amounts written off as uncollectible	**(956)**	–
Amounts recovered during the year	**(83)**	(233)
At end of the year	**8,665**	7,423

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$8,665,000 (2014: approximately HK$7,423,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

Other receivables of the Group are unsecured, interest-free and repayable on demand.

Carrying amounts of trade and bills receivables are denominated in the following currencies:

	2015 HK$'000	2014 HK$'000
HKD	**53,012**	67,953
USD	**177,957**	240,529
EUR	**142,116**	104,872
RMB	**71,947**	33,773
Others	**173**	125
	445,205	447,252

22 CASH AND CASH EQUIVALENTS

Bank balances, with original maturity less than 3 months, carry interest at market rates which range from 0.01% to 4% (2014: 0.01% to 4.85%) per annum.

Carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2015	2014
	HK$'000	HK$'000
HKD	**62,113**	85,259
USD	**99,324**	51,993
EUR	**28,550**	50,945
RMB	**247,745**	303,069
INR	**2,659**	2,679
Others	**2,724**	1,620
	443,115	495,565

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

23 TRADE AND OTHER PAYABLES

	2015	2014
	HK$'000	HK$'000
Trade payables	**122,378**	130,367
Receipts in advance	**125,195**	217,166
Other payables and accrued charges	**461,772**	476,387
	709,345	823,920
Amount due after one year included under non-current liabilities (Note i)	**(118,781)**	(124,210)
	590,564	699,710

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23 TRADE AND OTHER PAYABLES *(Continued)*

Note:

(i) On 28 March 2014, Fong's National Engineering (Shenzhen) Company, Limited（立信染整機械（深圳）有限公司）("FNES"), an indirect wholly-owned subsidiary of the Company, entered into a Co-operation Agreement (the "Agreement") with a third party (the "Project Company"), for the redevelopment of FNES's existing land (the "Land") in Shenzhen by way of urban renewal (the "Urban Renewal Project").

Pursuant to the Agreement, the parties have designated the Project Company as the sole principal of the Urban Renewal Project with the sole right to redevelop and reconstruct the Land based on the terms of the Agreement. The Project Company is responsible for obtaining approval from the PRC government for the redevelopment and reconstruction works contemplated under the Urban Renewal Project, including the demolition of the existing properties, the design, construction, completion and operation of the proposed facilities to be constructed on the redeveloped Land, and paying all costs in connection therewith (including reconstruction expenses, renovation expenses and land premium). FNES is responsible for the provision of the Land.

As part of the Agreement, FNES will receive (through resettlement and demolition compensation) (i) RMB1 billion in cash; and (ii) substitution of part of the existing properties on the Land (with a gross floor area of approximately 29,391 m^2) with facilities to be constructed on the redeveloped Land with a total gross floor area of approximately 30,000 m^2 (and, in addition, at least 100 car-parks).

The Agreement shall become effective upon the fulfilment of certain conditions precedent, including the approval of the Agreement by the shareholders at the special general meeting of the Company and by the SASAC. The Agreement had been approved by the shareholders at the special general meeting of the Company held on 15 May 2014 and by SASAC on 23 December 2014.

Upon the effective of the Agreement, FNES has received the first installment payment of RMB100 million during 2014, the Directors considered it will only be realised more than one year with the completion of the Urban Renewal Project, and therefore classified it as non-current liabilities at the end of the reporting period.

Details on the co-operation of the Urban Renewal Project have been disclosed in the Company's circular dated 25 April 2014.

As advised by the Project Company, due to the delay in obtaining the approval of the Agreement by SASAC and various recent measures implemented by the PRC government in administering the urban renewal projects in Shenzhen, it would take much longer than expected to obtain approval of the Urban Renewal Project proposal by the relevant governmental authority in Shenzhen.

In view of the above, the Project Company had requested FNES to amend the terms of the Agreement regarding the deferral of the second and third installment payments of the cash compensation from on or before 31 December 2015 to on or before 30 September 2016.

On 2 April 2015, it was conditionally agreed in writing ("Supplemental Agreement") to defer the second and third installment payments subject to the approval of the shareholders of the Company. The Supplemental Agreement was approved by the shareholders at the annual general meeting of the Company held on 21 May 2015.

Details on the variation of the terms of the Urban Renewal Project have been disclosed in the Company's circular dated 21 April 2015.

23 TRADE AND OTHER PAYABLES *(Continued)*

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

	2015 **HK$'000**	2014 HK$'000
0 – 90 days	**94,181**	101,602
91 – 120 days	**17,588**	16,859
Over 120 days	**10,609**	11,906
	122,378	130,367

The average credit period on purchase of goods is 90 days (2014: 90 days). The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

Carrying amounts of trade payables are denominated in the following currencies:

	2015 **HK$'000**	2014 HK$'000
HKD	**13,344**	17,921
USD	**10,612**	36,496
EUR	**37,576**	6,847
RMB	**60,107**	67,471
CHF	**200**	836
Others	**539**	796
	122,378	130,367

24 WARRANTY PROVISION

	2015 HK$'000	2014 HK$'000
At beginning of the year	**17,560**	26,090
Additional provision in the year	**22,108**	15,588
Utilisation of provision	**(23,048)**	(24,118)
Currency realignment	**(521)**	–
At end of the year	**16,099**	17,560

The warranty provision represents management's best estimate of the Group's liability under a 12-month warranty period granted on sale of dyeing and finishing machines based on past experience.

25 BORROWINGS

	2015 HK$'000	2014 HK$'000
Unsecured bank borrowings comprise the following:		
– Bank borrowings	**1,024,794**	901,035
– Trust receipts loans	**61,703**	110,700
– Discounted bills with recourse	**6,316**	10,116
	1,092,813	1,021,851
Other borrowings (Note i)	**–**	117,557
	1,092,813	1,139,408
Analysed for reporting purpose:		
– Non-current	**100,000**	–
– Current	**992,813**	1,139,408
	1,092,813	1,139,408

25 BORROWINGS *(Continued)*

Note:

(i) Pursuant to the terms of the conditional acquisition agreement for the acquisition of a number of companies entered with L. Possehl & Co. mbH ("Possehl") dated 3 June 2012, part of the consideration EUR10,250,000 (equivalent to approximately HK$104,806,000) are taken the form of an interest-free and unsecured loan from Possehl. Interest will, however, be payable if there is default in timely repayment of the loan in accordance with the terms thereof. The Group shall repay Possehl in three equal installments of approximately EUR3,417,000 (equivalent to approximately HK$34,935,000) in cash by the first, second and third anniversary of the completion date of the acquisition. In the case of a default of any repayment of this loan, the default amount shall bear interest at a rate of 8% per annum above the base rate according to the German Civil Code. A prolonged default of more than 20 business days shall allow Possehl to demand full repayment within 5 business days thereof.

The loan from Possehl was fully settled in 2015 and the fair value of the loan is estimated to be approximately HK$31,615,000 in 2014. The fair value has been arrived using effective interest method by discounting future repayment at a discount rate of 3.2%.

And, a conditional share subscription agreement dated 3 June 2012 entered with Possehl, a shareholder's loan is advanced by Possehl in the principal amount of approximately EUR9,000,000 (equivalent to approximately HK$74,231,100 (2014: approximately HK$85,942,000)) which shall accrue interest at a simple rate of 2% per annum and is repayable upon the exercise of the option described in the subscription agreement. On 9 December 2015, Possehl exercised the option and the shareholder's loan was fully settled in 2015. The shareholder's loan from Possehl is treated as financial liability in accordance with HKAS 32 "Financial Instruments: Presentation".

Details on the other borrowings have been disclosed in the Company's circular dated 30 June 2012.

The contractual maturity dates of the borrowings are as follows:

	2015 **HK$'000**	2014 HK$'000
Carrying amount repayable*:		
Within one year	**68,019**	243,539
More than one year, but not exceeding two years	**50,000**	–
More than two years, but not exceeding five years	**50,000**	–
	168,019	243,539

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For the year ended 31 December 2015

25 BORROWINGS *(Continued)*

The contractual maturity dates of the borrowings are as follows: *(Continued)*

	2015 HK$'000	2014 HK$'000
Carrying amounts of bank borrowings contain a repayment on demand clause that are repayable (shown under current liabilities)*:		
Within one year	**718,627**	592,809
More than one year, but not exceeding two years	**162,500**	190,560
More than two years, but not exceeding five years	**43,667**	112,500
	924,794	895,869
	1,092,813	1,139,408
Less: Amounts due within one year shown under current liabilities	**(992,813)**	(1,139,408)
Amounts shown under non-current liabilities	**100,000**	–

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The effective interest rates at the end of reporting date were as follows:

	2015 %	2014 %
Unsecured bank borrowings and trust receipts loans	**2.97**	3.20
Discounted bills with recourse	**1.94**	2.05
Other borrowings	**2.32**	2.32

25 BORROWINGS *(Continued)*

The carrying amounts of the borrowings are denominated in the following currencies:

	2015	2014
	HK$'000	HK$'000
HKD	**764,667**	603,394
USD	**328,146**	418,065
EUR	**–**	117,949
	1,092,813	1,139,408

26 DEFERRED REVENUE

The movement of deferred revenue in relation to government grants is as follows:

	2015	2014
	HK$'000	HK$'000
At beginning of the year	**5,077**	–
Received during the year	**2,065**	5,662
Recognised as other income during the year	**(1,673)**	(585)
Currency realignment	**(188)**	–
At end of the year	**5,281**	5,077

27 SHARE CAPITAL AND RESERVES

a. Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

b. Share capital of the Company

	Note	2015 Number of shares	2015 HK$'000	2014 Number of shares	2014 HK$'000
Authorised:					
Ordinary shares	(i)	**2,000,000,000**	**100,000**	1,000,000,000	100,000
Issued and fully paid:					
At 1 January		**551,446,285**	**55,145**	551,446,285	55,145
Share subdivision	(i)	**551,446,285**	**–**	–	–
At 31 December		**1,102,892,570**	**55,145**	551,446,285	55,145

Note:

(i) Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 21 May 2015, each of the existing issued and unissued share of par value of HK$0.10 in the share capital of the Company has been subdivided into two shares of par value of HK$0.05 each with effect from 22 May 2015. Upon the share subdivision became effective on 22 May 2015, the authorised share capital of the Company becomes HK$100,000,000 divided into 2,000,000,000 subdivided shares of HK$0.05 each, of which 1,102,892,570 subdivided shares were in issue and fully paid.

c. (Loss) profit for the year

Loss for the year dealt with in the financial statements of the Company was approximately HK$18,777,000 (2014: profit of approximately HK$42,469,000).

28 ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 14 July 2015, the Group acquired an additional 49% equity interest in Fong's Hi-Tech Environmental Secience and Technology Limited ("Fong's Hi-Tech") from an independent third party at a consideration of HK$735,000. The carrying amount of the non-controlling interests in Fong's Hi-Tech on the date of acquisition was approximately HK$154,000. The Group recognised a decrease in non-controlling interests of approximately HK$154,000 and a decrease in equity attributable to owners of the Company of approximately HK$581,000. The effect of changes in the ownership interest of Fong's Hi-Tech on the equity attributable to owners of the Company during the year is summarised as follows:

	2015
	HK$'000
Consideration paid to non-controlling interests	**(735)**
Carrying amount of non-controlling interests acquired (net assets)	**154**
Excess of consideration paid recognised in capital reserve within equity	**(581)**

29 ACQUISITION OF A SUBSIDIARY

On 23 December 2015, a subsidiary of the Company, entered into a sale and purchase agreement with two independent third parties to acquire 100% equity interest in Foshan City Chanhuade Information Technology Limited ("Foshan City Chanhuade") at a consideration of approximately RMB146,140,000 (equivalent to approximately HK$174,564,000). Foshan City Chanhuade is engaged in the provision of software development and information system consultancy service and investment holding.

The acquisition has been accounted for using the purchase method.

29 ACQUISITION OF A SUBSIDIARY *(Continued)*

Summary of net assets acquired in the transaction are as follows:

	Fair value as at date of acquisition
	HK$'000
Available-for-sale financial assets	187,210
Cash and cash equivalents	10
Tax liabilities	(4,521)
Net assets acquired	182,699
Gain on bargain purchase	(8,135)
Total consideration	174,564
Total consideration satisfied by:	
Cash	174,564
Net cash outflow arising on acquisition:	
Cash consideration paid	(174,564)
Less: Cash and cash equivalents acquired	10
	(174,554)

No revenue and profit for the year are attributable to the additional business generated by the newly acquired company.

Had the combination taken place at the beginning of the year, there would have been no material change to the revenue and consolidated profits of the Group for the year.

30 DISPOSAL OF AN ASSOCIATE

On 31 August 2014, the Group entered into a sale and purchase agreement (the "Agreement") with Hengtian Real Estate Company Limited（恒天地產有限公司）, a connected party of the Company's parent company, pursuant to which the Company has conditionally agreed to dispose of 30% of the equity interests in an associate, Foshan East Asia Co., Ltd.（佛山東亞股份有限公司）, at a consideration of RMB150,000,000 (equivalent to approximately HK$181,515,000) (see Note 17).

The disposal was completed on 17 September 2015.

The gain on disposal is summarised as below:

	2015 HK$'000
Consideration received	181,515
Asset disposed of	(34,751)
Cumulative translation reserve in respect of the net assets of Foshan East Asia Co., Ltd. reclassified from equity to profit or loss	8,182
	154,946
Less: Transaction costs	(1,133)
Gain on disposal	153,813
Net cash inflow arising on disposal:	
Cash consideration received	181,515
Less: Transaction costs paid	(1,133)
	180,382

31 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 shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in Note 25 less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

Certain bank borrowings of the Group include covenants that require the maintenance of certain financial ratios. As at 31 December 2015, no financial ratio covenant was breached.

The Directors of the Company review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

32 FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2015 **HK$'000**	2014 HK$'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**906,151**	968,729
Available-for-sale financial assets	**187,210**	–
	1,093,361	968,729
Financial liabilities:		
Amortised cost	**1,520,899**	1,820,192

b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, bank balances, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate 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.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk)

Several subsidiaries of the Company have foreign currency sales and purchases in denominated USD, EUR and RMB, which expose the Group to foreign currency risk. The Group also has bank balances, trade and other receivables/payables and borrowings denominated in foreign currency. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at year end are as follows:

	Liabilities		**Assets**	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
USD	**353,809**	434,123	**277,810**	295,634
EUR	**12,827**	127,661	**25,270**	29,218
RMB	**463**	283	**2,863**	5,440

In the opinion of the Directors of the Company, since Hong Kong dollars is pegged to USD under the Linked Exchange Rate System, the exposure to USD exchange rate risk is minimal relative to Hong Kong dollars. No sensitivity analysis in relation to Hong Kong dollars against USD is presented.

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant functional currencies against the foreign currencies. 5% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase in post-tax profit (2014: a (decrease) increase in post-tax profit) where respective functional currencies weakening 5% against the relevant foreign currencies. For a 5% strengthen of respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the post-tax profit (2014: profit).

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (currency risk) *(Continued)*

	USD		EUR		RMB	
	2015	2014	**2015**	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Increase (decrease) in profit for the year*	**114**	(1,125)	**519**	(4,110)	**100**	215

* This is mainly attributable to the exposure outstanding on USD (against foreign currencies other than Hong Kong dollars), EUR and RMB receivables, payables, bank balances and borrowings at year end.

Market risk (interest rate risk)

The Group's cash flow interest rate risk relates to the bank balances and borrowings with floating interest rates. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank balances and borrowings.

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the end of each reporting period. For variable-rate bank balances (other than deposits placed in Hong Kong) and borrowings, the analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would decrease/increase by approximately HK$2,371,000 (2014: approximately HK$1,921,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

At 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to a failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised assets as stated in the consolidated statement of financial position. 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 the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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.

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average interest rate	On demand or within 1 year	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2015						
Non-derivative financial liabilities						
Trade and other payables	**–**	**428,086**	**–**	**–**	**428,086**	**428,086**
Borrowings						
– fixed rate	**3.03**	**152,082**	**–**	**–**	**152,082**	**149,367**
– variable rate	**2.95**	**846,781**	**52,147**	**50,742**	**949,670**	**943,446**
		1,426,949	**52,147**	**50,742**	**1,529,838**	**1,520,899**
2014						
Non-derivative financial liabilities						
Trade and other payables	–	680,784	–	–	680,784	680,784
Borrowings						
– fixed rate	2.74	260,562	–	–	260,562	255,305
– variable rate	3.21	884,402	–	–	884,402	884,103
		1,825,748	–	–	1,825,748	1,820,192

32 FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

Liquidity tables (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or within 1 year" time band in the above maturity analysis. As at 31 December 2015 and 2014, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$924,794,000 and approximately HK$895,869,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 3 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements as set out in this table below:

	Weighted average interest rate	On demand or within 1 year	1 – 2 years	2 – 5 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2015						
Bank borrowings						
– fixed rate	**3.03**	**152,082**	**–**	**–**	**152,082**	**149,367**
– variable rate	**2.95**	**688,980**	**52,168**	**44,279**	**785,427**	**775,427**
		841,062	**52,168**	**44,279**	**937,509**	**924,794**
2014						
Bank borrowings						
– fixed rate	3.66	140,275	–	–	140,275	137,748
– variable rate	3.45	529,652	187,678	83,163	800,493	758,121
		669,927	187,678	83,163	940,768	895,869

At that time, the aggregate principal and interest cash outflows will amount to approximately HK$937,509,000 (2014: approximately HK$940,768,000).

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

32 FINANCIAL INSTRUMENTS *(Continued)*

c. Fair value

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

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

33 SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") at the annual general meeting of the Company held on 21 May 2015 for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and enabling the Group to recruit and retain high-calibre employees and attracting human resources that are valuable to the Group.

The Board of Directors of the Company may, at their discretion, grant options to the eligible Participants including any full-time employees, directors or consultants of the Group. The maximum number of shares of the Company which may be issued upon exercise of all options granted under the Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the options to each eligible Participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

Share options granted must be taken up within 5 days from the date of grant. Each of the grantees is required to pay HK$1 as cash consideration for the grant of the share options in accordance with the Scheme. The total number of shares in respect of which share options may be granted shall not exceed 10% of the issued ordinary share capital. The exercise price is determined by the Directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the share.

An option is deemed to have been granted and accepted by the grantee upon his or her signing of a duplicate letter comprising acceptance of the option and paying HK$1 by way of consideration for the grant thereof on or before the relevant acceptance date being a date within 5 days after the date on which the option is offered.

33 SHARE OPTION SCHEME *(Continued)*

An option may be exercised in accordance with the terms of the Scheme at any time during the option period after the option has been granted by the Board of Directors. An option period is a period to be determined by the Board of Directors in its absolute discretion and notified by the Board of Directors to each grantee as being the period during which an option may be exercised, such period shall commence from the date of acceptance of the offer for the grant of the option and shall end not later than 10 years from the date on which the offer for grant of the option is made.

The Scheme shall be valid and effective for a period of ten years commencing on the adoption date after which period no further share options shall be offered or granted but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any share options granted or exercised prior thereto.

A summary of the movements of the share options, which were granted under the Scheme during the year ended 31 December 2015, were as follows:

	Number of share options										
	Before share subdivision becoming effective on 22 May 2015				After share subdivision becoming effective on 22 May 2015						
	As at 1 January 2015	Granted	Exercised	Adjustment for the share subdivision	Granted	Exercised	As at 31 December 2015	% of issued share capital	Date of grant	Exercise price (Note ii) HK$	Note
Grantee (Note i):											
Qi Yuan Investment (Hong Kong) Limited	–	13,750,000	–	13,750,000	–	–	27,500,000	2.49	22 April 2015	1.95	(iii)
Qi Yuan Investment (Hong Kong) Limited	–	13,750,000	–	13,750,000	–	–	27,500,000	2.49	22 April 2015	2.50	(iii)
Total	–	27,500,000	–	27,500,000	–	–	55,000,000	4.98			

Notes:

(i) The Grantee is a consultant of the Company providing advice on the Group's strategic planning, business expansion and development, and investor relation management. In consideration of motivating the Grantee in its performance of services, the Company granted the share options to the Grantee pursuant to a conditional agreement dated 22 April 2015 (as amended by a supplemental agreement dated 30 April 2015) entered into between the Grantee and the Company, which were approved, ratified and confirmed by the shareholders at the special general meeting of the Company held on 21 May 2015.

(ii) As a result of the share subdivision, the exercise prices of the share options were adjusted from HK$3.90 to HK$1.95 and from HK$5.00 to HK$2.50 respectively.

(iii) The share options are exercisable from 22 April 2015 to 21 April 2018. Vesting of the share options is conditional upon the Grantee assisting the Company to achieve certain performance targets, which were disclosed in the circular of the Company dated 5 May 2015.

33 SHARE OPTION SCHEME *(Continued)*

The fair values of the shares options granted were calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

	Options with exercise price of HK$1.95	**Options with exercise price of HK$2.50**
Fair value at measurement date	HK$0.685	HK$0.520
Share price	HK$2.175	HK$2.175
Expected tenor	3 years	3 years
Expected vesting probability	50%	50%
Expected volatility	47.20%	47.20%
Expected dividend yield	1.97%	1.97%
Risk-free interest rate	0.95%	0.95%

The expected tenor used in the model has been adjusted, based on the management's best estimate. The expected volatility was determined by using the historical volatility of the Company's share prices over the previous years. The expected dividend yield was based on historical dividends. Risk-free interest rate was based on the yield of Hong Kong Exchange Fund Note. Changes in the variables and assumptions may result in changes in the fair values of the share options.

In total, approximately HK$3,503,000 of share option expense has been recognised in profit or loss for the year ended 31 December 2015 and the corresponding amount of which has been credited to share option reserve.

34 CAPITAL COMMITMENTS

	2015 HK$'000	2014 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
Property, plant and equipment	**1,339**	35,682
Leasehold land	**113,757**	118,290
	115,096	153,972

35 OPERATING LEASES

Minimum lease payments paid under operating leases for rented premises during the year amounted to approximately HK$19,294,000 (2014: approximately HK$20,589,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015	2014
	HK$'000	HK$'000
Within one year	**16,263**	17,742
In the second to fifth year inclusive	**16,704**	18,096
Over five years	**3,644**	–
	36,611	35,838

Operating lease payments represent rentals payable by the Group for certain of its office premises, factories, godowns and residential units for its employees. The leases have varying terms, escalation clauses and renewal rights.

36 RETIREMENT BENEFITS SCHEMES

The major retirement benefits schemes of the Group are summarised as follows:

Schemes in Hong Kong

The Group has a defined contribution provident fund under Occupational Retirement Scheme ("ORSO Scheme") for its Hong Kong employees. The Group is required to make contributions to the ORSO Scheme calculated at 5% of the employees' basic salaries on a monthly basis. The Group's contribution will start with 5% and further increase proportionally to a maximum of 8% of each employee's basic salary after completion of three years of service to the Group. The employees are entitled to 100% of the employers' contribution and the accrued interest after 10 years of completed service, or at a reduced scale of between 30% to 100% after completion of 3 to 10 years of service. The forfeited contributions and related accrued interest are to be used to reduce the employers' contribution.

36 RETIREMENT BENEFITS SCHEME *(Continued)*

Schemes in Hong Kong *(Continued)*

With effect from 1 December 2000, the Group has also participated in Hong Kong Mandatory Provident Fund Scheme ("MPF Scheme"). The assets of the MPF Scheme are held under two mandatory provident funds managed by AXA China Region Trustees Limited and Sun Life Trustee Co. Ltd. respectively. Under the MPF Scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income subject to a monthly maximum amount of HK$1,500 (effective from 1 June 2014) per employee and vest fully with employees when contributed into the MPF Scheme (as defined in the Mandatory Provident Fund Scheme Ordinance).

The employees entitled to participate in the ORSO Scheme before 1 December 2000 were given an option to join the MPF Scheme or to continue making contributions to the ORSO Scheme. All other existing or newly employed employees are required to join the MPF Scheme. The Group is required to make contributions to either of the two schemes in accordance with the option selected by the employees.

The aggregate employers' contributions which have been dealt with in profit or loss of the Group amounted to approximately HK$4,706,000 (2014: approximately HK$4,612,000).

At the end of the reporting period, there are no significant forfeited contributions available to offset employer's future contributions to the ORSO Scheme.

Scheme in the PRC

The employees of the Company's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 13% to 14% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to profit or loss for the scheme in the PRC amounted to approximately HK$36,212,000 (2014: approximately HK$35,089,000).

36 RETIREMENT BENEFITS SCHEME *(Continued)*

Scheme in Germany

In Germany, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 9.95% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to profit or loss for the scheme in Germany amounted to approximately HK$9,492,000 (2014: approximately HK$11,403,000).

In Germany, the Group operates a defined benefit plan for its employees, the Group is required to pay the benefits granted to the present and past employees.

For the year ended 31 December 2015, the defined benefit plan is valued using the projected unit credit method in accordance with HKAS 19, which was prepared by a qualified actuary, the fair value of the defined benefit obligation is approximately HK$16,855,000 (2014: approximately HK$20,407,000). During the year, the service costs and interest expenses of approximately HK$34,000 (2014: approximately HK$48,000) and approximately HK$364,000 (2014: approximately HK$585,000) respectively were recognised in profit or loss, the remeasurement gain of approximately HK$885,000 (2014: loss of approximately HK$2,833,000) was recognised in other comprehensive income.

Scheme in Switzerland

In Switzerland, the Group is obliged to contribute to a basic pension plan on a monthly basis at 5.05% of the employee's gross income plus administrative charges.

Besides, the Group also has a mandatory occupational benefit plan ("the Plan") for all the employees as regulated under federal law. The Group is obliged to make contributions to the Plan, calculated up to 10% of the employees' basic annual salary, plus an individual risk surcharge of about 2%.

The total cost charged to profit or loss for the Plan in Switzerland amounted to approximately HK$106,000 (2014: approximately HK$143,000).

Scheme in Austria

In Austria, the Group is obliged to contribute to a social pension programme for employees on a monthly basis at around 12.55% of the employees' gross income. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contribution.

The total cost charged to profit or loss for the scheme in Austria amounted to approximately HK$2,372,000 (2014: approximately HK$2,694,000).

37 RELATED PARTY DISCLOSURES

The Company is a subsidiary of China Hi-Tech Group Corporation(中國恒天集團有限公司), a State-owned enterprise under the direct supervision and administration of, and is beneficially owned by, the SASAC. Accordingly, the Company and the Group are ultimately controlled by the PRC government.

The Group has entered into the following transactions with related parties during the year:

	2015 HK$'000	2014 HK$'000
Related parties in which a Director of the Company has control		
Other income	1	1
Related parties in which a close member of a Director of the Company has control		
Other income	–	3
Rental paid	11,594	11,594
Fellow subsidiaries		
Commission paid	21	–
Consultancy fee paid	118	–
Purchase of materials	63	132
Immediate holding company		
Interest expense paid	8	–
Ultimate holding company		
Other income received	299	75
Interest expense paid	–	347

37 RELATED PARTY DISCLOSURES *(Continued)*

At the end of the reporting period, China Hi-Tech Group Corporation（中國恒天集團有限公司）undertakes that it will be at all times maintain an aggregate beneficial ownership (directly or indirectly) of not less than 51% in the issued share capital of the Company throughout the life of certain banking facilities granted to the Group.

All the above transactions also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

The Group entered into operating lease agreements with a related party which a substantial shareholder of the Company has control. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015 **HK$'000**	2014 HK$'000
Within one year	**9,502**	11,064
In the second to fifth year inclusive	**–**	11,064
	9,502	22,128

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For the year ended 31 December 2015

37 RELATED PARTY DISCLOSURES *(Continued)*

Compensation of key management personnel

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

	2015	2014
	HK$'000	HK$'000
Short-term benefits	**57,531**	50,535
Post-employment benefits	**1,579**	1,479
	59,110	52,014

The remuneration of Directors and key executives is determined by the Remuneration Committee of the Company having regard to the performance of individuals and market trends.

Government-related entities operated in the PRC

The Group has entered into various banking transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. About 29% (2014: 27%) of its bank deposits and borrowings are with government-related entities. In view of the nature of those banking transactions, the Directors of the Company are of the opinion that separate disclosure would not be meaningful.

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2015	Direct 2014	Indirect 2015	Indirect 2014	Principal activities
Fong's Property Holding Limited	British Virgin Islands	US$1	**100%**	100%	**–**	–	Investment holding
Fong's Manufacturers Company Limited	British Virgin Islands	US$10,000	**100%**	100%	**–**	–	Investment holding
Falmer Investments Ltd.	British Virgin Islands/ Hong Kong	US$1	**–**	–	**100%**	100%	Research and development
Fong's Engineering Services Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel products and provision of management services to group companies
Fong's National Engineering Company, Limited	Hong Kong	Ordinary – HK$100 Deferred – HK$8,000,000 (Note i)	**–**	–	**100%**	100%	Trading of dyeing and finishing machines
Fong's National Engineering (Shenzhen) Co., Ltd.* 立信染整機械(深圳)有限公司	The PRC	US$22,500,000	**–**	–	**100%**	100%	Manufacture and trading of dyeing and finishing machines
Fong's Hi-Tech Environmental Secience and Technology Limited (Note ii)	Hong Kong	HK$1,500,000	**–**	–	**100%**	51%	Investment holding
Fong's Steels Supplies Company Limited	Hong Kong	HK$10,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Leefull Metal (Shenzhen) Co., Ltd.* 立豐行金屬材料(深圳)有限公司	The PRC	RMB2,500,000	**–**	–	**100%**	100%	Trading of stainless steel supplies
Goller (HK) Limited	Hong Kong	HK$1	**–**	–	**100%**	100%	Trading of textile machinery

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2015	Direct 2014	Indirect 2015	Indirect 2014	Principal activities
Goller Textile Machinery (Shenzhen) Co., Ltd.* 高樂紡織機械(深圳)有限公司	The PRC	US$10,000,000	–	–	**100%**	100%	Manufacture and trading of textile machinery
Sunshine Glory Limited	British Virgin Islands/ The PRC	US$10	–	–	**100%**	100%	Investment holding
Tycon Alloy Industries (Hong Kong) Co., Ltd.	Hong Kong	HK$10,000	–	–	**100%**	100%	Trading of Stainless steels casting products
Tycon Alloy Industries (Shenzhen) Co., Ltd.* 泰鋼合金(深圳)有限公司	The PRC	US$16,550,000	–	–	**100%**	100%	Manufacture and trading of stainless steels casting products
Fong's Europe GmbH	Germany	EUR1,900,000	–	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts
Xorella AG	Switzerland	CHF350,000	–	–	**100%**	100%	Manufacture and trading of textile machinery and technical parts
Fong's Water Technology Company Limited	Hong Kong	HK$1,000,000	–	–	**100%**	100%	Providing services on recycling of wastewater
Fong's Water Technology & Conservation Equipment (Shenzhen) Co., Ltd.* 立信水務環保設備(深圳)有限公司	The PRC	US$2,000,000	–	–	**100%**	100%	Sale of water recycling system and providing services on recycling of wastewater
Fong's National Dyeing and Finishing Machinery (Macao Commercial Offshore) Co., Ltd.	Macau	MOP100,000	–	–	**100%**	100%	Trading of textile machinery

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company Direct 2015	2014	Indirect 2015	2014	Principal activities
Fong's National Engineering (Guangdong) Co., Ltd.* 立信染整機械(廣東)有限公司	The PRC	US$2,780,000	–	–	**100%**	100%	Not yet commenced business
Fong's Steels (Zhongshan) Co., Ltd.* 立信鋼材(中山)有限公司	The PRC	US$100,000	–	–	**100%**	100%	Not yet commenced business
Tycon Alloy Industries (Zhongshan) Co., Ltd.* 泰鋼合金(中山)有限公司	The PRC	US$20,750,000	–	–	**100%**	100%	Not yet commenced business
Monforts Fong's Textile Machinery Co. Limited (Note iii)	Hong Kong	HK$18,400,000	–	–	**100%**	90.1%	Manufacture and trading of textile machinery
Foshan City Chanhuade Information Technology Limited* 佛山市禪華德信息科技有限公司 (Note iv)	The PRC	RMB1,000,000	–	–	**100%**	–	Provision of software development and information system consultancy service and investment holding
Fong's Projects Holding Limited (Note iii)	British Virgin Islands	US$1,000	–	–	**100%**	90.1%	Investment holding
Monforts Fong's Textile Machinery (Macao Commercial Offshore) Co. Ltd. (Note iii)	Macau	MOP100,000	–	–	**100%**	90.1%	Manufacture and trading of textile machinery
Monforts Fong's Textile Machinery (Shenzhen) Co., Ltd.* 立信門富士紡織機械(深圳)有限公司 (Note iii)	The PRC	HK$43,500,000	–	–	**100%**	90.1%	Inactive
Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.* 立信門富士紡織機械(中山)有限公司 (Note iii)	The PRC	US$26,500,000	–	–	**100%**	90.1%	Manufacture and trading of textile machinery

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of Company	Place of incorporation or registration/ operations	Nominal value of issued capital/ registered capital	Equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2015	2014	**2015**	2014	
A. Monforts Textilmaschinen GmbH & Co KG (Note iii)**	Germany	N/A	**–**	–	**N/A**	N/A	Manufacture and trading of textile machinery
Montex Maschinenfabrik Ges.m.b.H (Note iii)	Republic of Austria	EUR1,020,000	**–**	–	**100%**	90.1%	Production of machinery for textile industry and provision of metal forming and assembly services

* A wholly foreign-owned enterprise in the PRC.

** A. Monforts Textilmaschinen GmbH & Co KG is a partnership of which two subsidiaries of the Company are respectively acting as the limited partner and general partner.

Notes:

(i) The deferred shares entitle the holders to dividends from one half of the remaining net profit after the first HK$10,000,000,000 has been distributed to holders of ordinary shares of HK$1 each of the company. The deferred shares also entitle the holders to participate in distribution of one half of the surplus assets on winding up after the first HK$20,000,000,000 has been distributed to holders of ordinary shares of HK$1 each of the company.

(ii) On 14 July 2015, the Company acquired an additional 49% equity interest in Fong's Hi Tech from an independent third party. Upon the completion of this further acquisition, the percentage of equity attributable to the Group increased from 51% to 100%. Please refer to Note 28 for details.

(iii) On 9 December 2015, Possehl exercised the Put Option and the sale and purchase of the 9.9% shares in Fong's Projects completed on 21 December 2015. After the completion of the exercise, Fong's Projects and its subsidiaries became wholly-owned subsidiaries of the Company.

(iv) On 23 December 2015, the Company acquired 100% equity interest in Foshan City Chanhuade from two independent third parties. Please refer to Note 29 for details.

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

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The details of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2015	Number of subsidiaries 2014
Manufacture and sale of dyeing and finishing machines	British Virgin Islands	**6**	6
	Chile	**1**	1
	Germany	**2**	2
	Hong Kong	**22**	22
	India	**1**	1
	Luxembourg	**1**	1
	The PRC	**1**	1
		34	34
Trading of stainless steel supplies	Hong Kong	**1**	1
		1	1
Manufacture and sale of stainless steel casting products	Hong Kong	**2**	2
		2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2015	2014
	HK$'000	HK$'000
Unlisted investments in subsidiaries	**36,585**	36,585
Cash and cash equivalents	**1,851**	1,410
Amounts due from subsidiaries	**402,404**	446,132
Other receivables	**2,133**	1,239
Total assets	**442,973**	485,366
Current liabilities	**(2,139)**	(1,686)
Net assets	**440,834**	483,680
Share capital (Note 27(b))	**55,145**	55,145
Reserves	**385,689**	428,535
Total equity (Note a)	**440,834**	483,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2014	55,145	157,261	2,370	242,003	23,033	–	479,812
Profit and total comprehensive income for the year	–	–	–	42,469	–	–	42,469
Final dividend for 2013 paid	–	–	–	(22,058)	–	–	(22,058)
Interim dividend for 2014 paid (Note 11)	–	–	–	(16,543)	–	–	(16,543)
At 31 December 2014 and 1 January 2015	55,145	157,261	2,370	245,871	23,033	–	483,680
Loss and total comprehensive expense for the year	–	–	–	(18,777)	–	–	(18,777)
Effects of share options	–	–	–	–	–	3,503	3,503
Final dividend for 2014 paid (Note 11)	–	–	–	(27,572)	–	–	(27,572)
At 31 December 2015	55,145	157,261	2,370	199,522	23,033	3,503	440,834

40 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	**2015 HK$'000**
Revenue	2,198,608	2,126,467	3,757,496	3,415,269	**3,223,012**
Profit before tax	73,159	156,076	122,740	151,275	**211,334**
Income tax expense	(14,102)	(4,049)	(42,385)	(33,753)	**(45,488)**
Profit for the year	59,057	152,027	80,355	117,522	**165,846**
Profit (loss) attributable to:					
Owners of the Company	59,057	152,027	80,365	117,901	**166,029**
Non-controlling interests	–	–	(10)	(379)	**(183)**
	59,057	152,027	80,355	117,522	**165,846**

ASSETS AND LIABILITIES

	As at 31 December				
	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	**2015 HK$'000**
Total assets	2,113,366	3,200,222	3,396,263	3,323,473	**3,238,879**
Total liabilities	(1,120,671)	(2,061,862)	(2,148,780)	(2,033,061)	**(1,866,449)**
	992,695	1,138,360	1,247,483	1,290,412	**1,372,430**
Equity attributable to owners of the Company	992,695	1,138,360	1,246,758	1,290,076	**1,372,430**
Non-controlling interests	–	–	725	336	**–**
	992,695	1,138,360	1,247,483	1,290,412	**1,372,430**