遠東環球集團有限公司
FAR EAST GLOBAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 00830

2016 ANNUAL REPORT

EXPANDING NEW FUTURE

Mission & Vision

We believe the world of ideas is infinite and when passionate design is integrated with advanced engineering, results are often extraordinary. We are dedicated to elevating the industry standards and broadening our global presence. At the same time, we strive to bring our clients' most imaginative drawing concept to reality.

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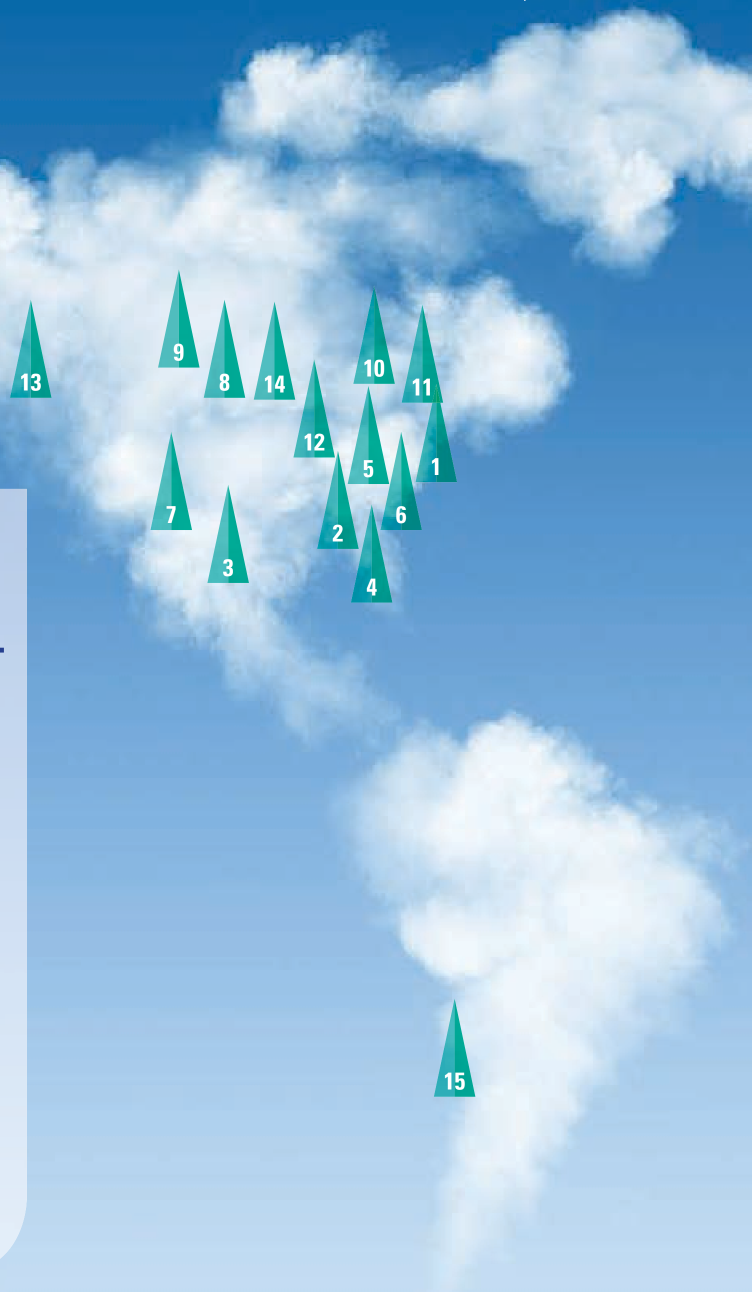
ABOUT FAR EAST GLOBAL

INTERNATIONAL ADVANTAGES

The Silk Road Economic Belt

Established in 1969, Far East Global Group is one of the world's leading speciality engineering firms in providing one-stop curtain wall and building facade solution for high-end property development projects. The Company is running projects mainly in North America, Greater China, Australia as well as United Kingdom.



1. Boston *(USA)*
- Millennium Tower

2. Baltimore *(USA)*
- MGM National Harbour

3. Las Vegas *(USA)*
- Cosmopolitan Resort Hotel & Casino
- Mandarin Oriental Hotel
- Veer Towers

4. Miami *(USA)*
- Brickell City Center
- Miami Int'l Airport Renovation

5. New Jersey *(USA)*
- 99 Hudson

6. New York *(USA)*
- 125 Greenwich street
- 605 42nd Street
- New York Police Academy
- Sanitation Garage
- United Nations HQ
- World Trade Center

7. San Francisco *(USA)*
- Trinity Plaza – Block A

8. Calgary *(Canada)*
- SAIT Trades & Technology Complex

9. Edmonton *(Canada)*
- Edmonton Ice Tower A

10. Montreal *(Canada)*
- Altoria Tower
- Jewish General Hospital
- L'Avenue
- Roccabella
- St. Justin Hospital
- U Condos
- University of Montreal Hospital Centre
- YUL Condos

11. Quebec *(Canada)*
- Museum Beaux Arts
- Universite de Sherbrooke – Campus Longueuil

12. Toronto *(Canada)*
- Shangri-la Toronto
- Trump International Hotel & Tower
- 620 King Street

13. Vancouver *(Canada)*
- Vancouver Stock Exchange
- Vancouver Urban Resort

14. Winnipeg *(Canada)*
- True North Square

15. Santiago *(Chile)*
- Costanera Center (Tower 2)

1. Beijing *(China)*

- CYTS Plaza

2. Shanghai *(China)*

- International Financial Centre
- 江森辦公樓

3. Shenyang *(China)*

- New World Int'l Convention & Exhibition Centre

4. Shenzhen *(China)*

- One Shenzhen Bay
- Upper Hills

5. Tianjin *(China)*

- Chow Tai Fook Financial Centre

6. Zhangzhou *(China)*

- Dynasty Park

7. Hong Kong *(China)*

- Kai Tak Cruise Terminal
- Shangri-La Hotel
- Shatin Communication and Technology Centre
- Tuen Mun So Kwun Wat Residential Development
- Queen's Road East 373 Hotel
- Children's Hospital
- One Kai Tak
- Phase 2A, Taikoo Place

8. Macau *(China)*

- The 13th Hotel
- MGM Cotai
- Wynn Palace Cotai

9. Melbourne *(Australia)*

- Prima Pearl
- Upper West Side T2
- Aurora Melbourne Central

10. London *(UK)*

- 71 Queen Victoria Street
- One The Elephant

11. Singapore

- Marina Bay Sands Integrated Resort

12. Dubai *(UAE)*

- Burj Khalifa
- Darwish Tower
- Sama Tower

13. Tokyo *(Japan)*

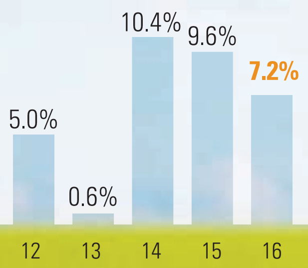
- Chiyoda-Ku Yonubanchou Building
- Tokyo Station Yaesu II project

FINANCIAL HIGHLIGHTS

The key financial and business performance indicators comprise revenue growth; profitability growth; return on equity; net gearing ratio and dividend payout. Details of the key performance indicators are stated as below.

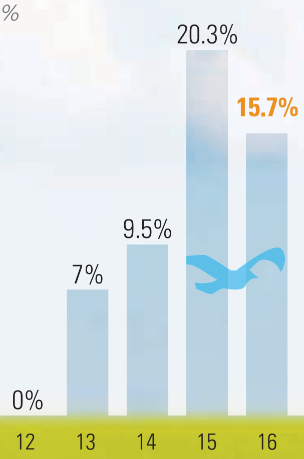
Year ended 31 December	2012 HK$'000 restated	2013 HK$'000 restated	2014 HK$'000	2015 HK$'000	2016 HK$'000
Revenue	1,860,615	1,418,808	1,682,149	2,194,896	**2,647,272**
Gross Profit	93,606	8,443	175,338	211,513	**189,540**
Profit/(loss) attributable to owners of the Company	(136,813)	50,398	57,738	71,463	**88,391**
Total assets	1,992,502	2,212,854	1,899,368	2,096,935	**2,284,652**
Equity attributable to owners of the Company	1,113,753	1,135,860	1,154,864	1,172,579	**929,485**
Basic earnings per share (HK cents)	(6.87)	2.34	2.68	3.32	**4.10**
Dividend (HK cents)	–	1.0	1.0	1.2	**1.6**

Gross Profit Ratio
Financial Year
%



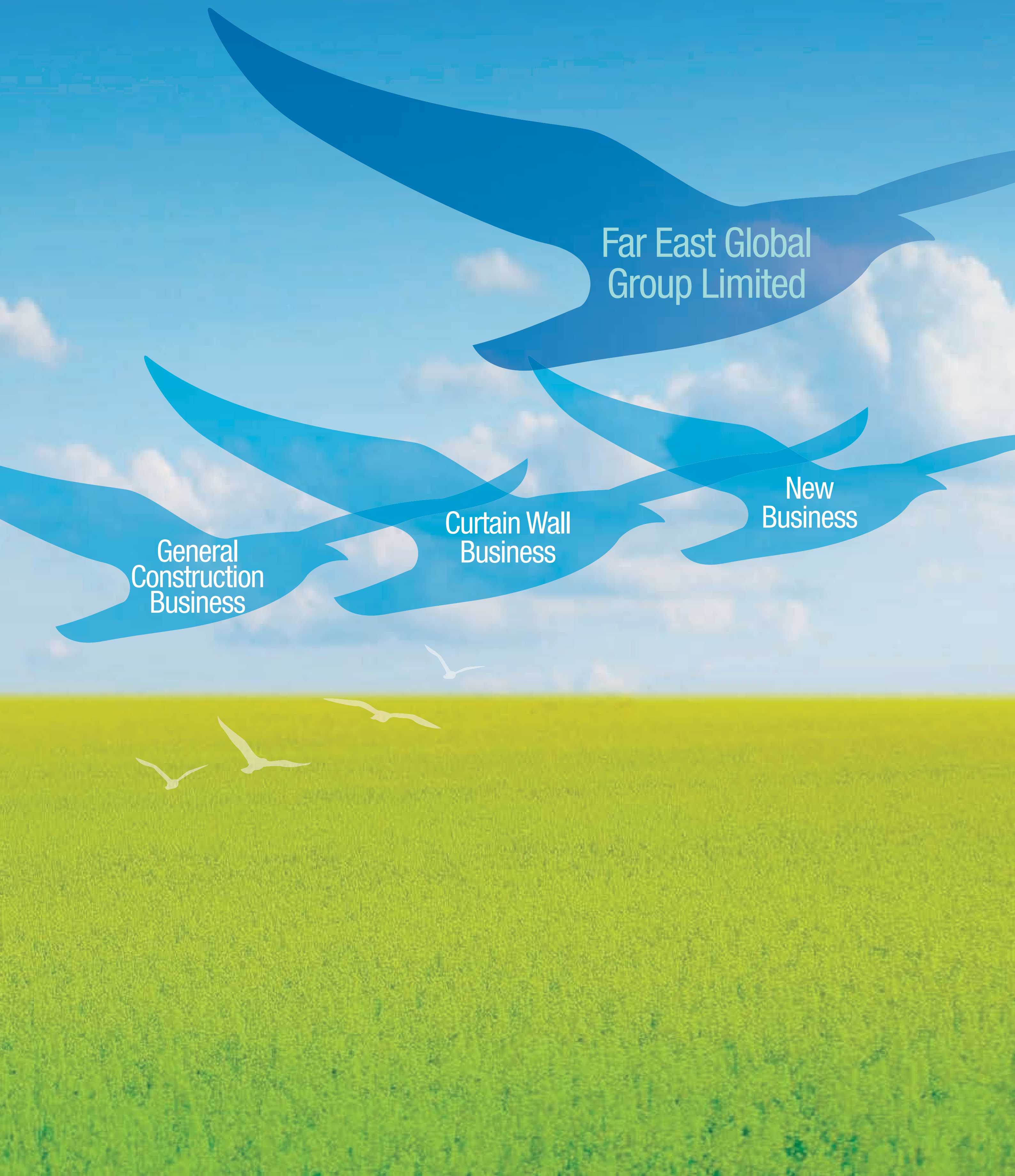
Return on Equity Attributable to Owners of the Company
Financial Year
%

Net Gearing Ratio
Financial Year
%



2016 Revenue by Segments

CORPORATE STRUCTURE



MAJOR EVENTS OF THE Year 2016

C


D


B

A


January

A Joined the "2015/2016 Hong Kong & Kowloon Walk" held by The Community Chest of Hong Kong.

March

B The Group continually obtain the "Caring Company" honor label from 2013.

March

C The Group won the bid of Taikoo Place Phase 2A Development project, which the owner is Swire Properties. The amount of the contract value is HK$445 million. It is one of the tallest and largest project that the Group has done recently.

June

D The Group won the bid of Aurora Melbourne Central project in Australia, which the owner is UEM Sunrise Berhad. The amount of the contract value is HK$151 million. The entire area of curtain wall is 48,000 square meters. This project also represents our brand's influence and expandability in Australian market.

June

E Our curtain wall project, Quebec National Museum of Fine Arts in Canada (curtain wall manufactured by the Group) was officially opened on June 24, 2016. Canadian Prime Minister J. Trudeau visited the site and highly commended on it.

July

F The Group won the bid of 99 Hudson Street project at New Jersey, which the owner is China Overseas American, Inc. The amount of the contract value is US$68 million. The entire area of curtain wall is 48,600 square meters; it is the tallest building at New Jersey and the first overseas cooperation between the Group and China Overseas American, Inc.

July

G Mr. Zhu Yijian, the Group's Executive Director, Vice Chairman and CEO, visited China Construction Steel Structure Corp. Ltd. East China Region, looking forward to the cooperation opportunity for a win-win business in future.

MAJOR EVENTS OF THE Year 2016

August

H The Group's Zhuhai Factory started to run. Factory's entire area is about 85,000 square meters, plot ratio is 1.0, it is operated to be used as a modern factory which has design, production, experiment and innovation departments.

August

I The Group held the first "Company Day" and set up Books Corner, Suggestion Box, FE Caring Cards, Books Donation and played interactive games on that day.

November

The Group has got honor labels of the "Green Office" by World Green Organization and "Better World Company" by Junior Chamber International Hong Kong.

JCI Hong Kong Better World Company

WORLD GREEN ORGANISATION Green Office Awards Labelling Scheme

November

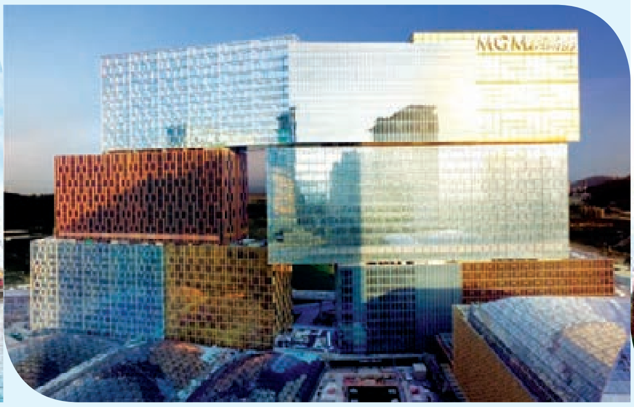
J The Group successfully held "2016 Far East Badminton Championship". Forty colleagues from Hong Kong, Macau, Shenzhen, Shanghai, Changsha, Xi'an formed 6 teams participated in the competition.

December

K This year, Wynn Palace opened already, the fire inspection for The 13 Hotel was completed and the progress of MGM project goes smoothly.

December

L More than 60 subcontractors and suppliers joined the Group's "2016 Annual Strategic Partners Meeting", it strengthens the confidence to continue the cooperation with business partners in future.



BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Chairman and Non-executive Director

ZHOU Yong

Executive Directors

ZHU Yijian
(Vice Chairman and Chief Executive Officer)
LUO Haichuan
WANG Hai
CHAN Sim Wang
QIN Jidong

Independent Non-executive Directors

ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

COMMITTEES

Audit Committee

ZHOU Jinsong, *CPA (Chairman)*
HONG Winn
KWONG Sum Yee Anna

Remuneration Committee

ZHOU Jinsong *(Chairman)*
ZHOU Yong
ZHU Yijian
HONG Winn
KWONG Sum Yee Anna

Nomination Committee

ZHOU Yong *(Chairman)*
ZHU Yijian
ZHOU Jinsong
HONG Winn
KWONG Sum Yee Anna

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

ZHOU Yong
ZHU Yijian

COMPANY SECRETARY

LAU Shuk Yin Connie

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MaplesFS Limited
P.O. Box 1093
Queensgate House
Grand Cayman
KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR

Mayer Brown JSM

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
BNP Paribas Hong Kong Branch
Bank of The West
China Construction Bank Corporation
China Guangfa Bank Macau Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Macau) Limited
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

00830

CORPORATE WEBSITE

www.fareastglobal.com

FINANCIAL CALENDAR

Annual Results Announcement

16 March 2017

Closure of register of members for Annual General Meeting

16–20 June 2017 (both days inclusive)

Annual General Meeting

20 June 2017

Closure of register of members for Final Dividend

28–29 June 2017 (both days inclusive)

Payment of Final Dividend

10 July 2017

MAJOR PROJECTS IN PROGRESS OVERVIEW

Project Name	Project Type
Facade Contracting Works	
Mainland China	
Apple Stores	Sales Office
Chow Tai Fook Financial Center, Tianjin	Commercial
LeEco Store	Sales Office
One Shenzhen Bay, Shenzhen	Residential
UpperHills, Shenzhen	Residential
江森辦公樓, Shanghai	Commercial
Hong Kong, Macau & Others	
Aurora Melbourne Central, Melbourne, Australia	Residential
Centre of Excellence in Paediatrics in Kai Tak Development, Hong Kong	Hospital
No. 423 in No. 48 district, Castle Peak Road, So Kwun Wat, Tuen Mun, Hong Kong	Residential
NKIL 6312, Lam Lee Street Kowloon Bay, Hong Kong	Commercial
Nos. 12–24 Lun Fat Street, Wanchai, Hong Kong	Residential
One Kai Tak, Hong Kong	Residential
Sheung Lok Street and Sheung Shing Street, Ho Man Tin, Kowloon, Hong Kong	Residential
Taikoo Place Phase 2A, Hong Kong	Commercial
TKDTL 126, Area 68B2, Tseung Kwan O, Hong Kong	Residential
TMTL 427, So Kwun Wat, Tuen Mun Residential Development, Hong Kong	Residential
Nova City, Phase 5, Macau	Residential
North America	
99 Hudson, Jersey City, New Jersey, USA	Residential
Edmonton Ice Tower A, Edmonton, Canada	Commercial
620 King Street, Toronto, Canada	Residential
True North Square 242 Hargrave Street, Winnipeg, Canada	Residential
YUL Condos, Montreal, Canada	Residential
Vancouver Stock Exchange, Vancouver Canada	Commercial
Vancouver Urban Resort, Vancouver, Canada	Hotel
General Contracting Works	
Queen's Road East 373 Hotel, Hong Kong	Hotel
Lot No. 70, Tsing Lung Tau, Tsuen Wan, Hong Kong	Residential

Estimated Contract Sum HK$ million	Year of Estimated Project Completion
41.4	2017
126.2	2018
19.3	2017
69.8	2017
103.4	2018
111.9	2018
151.3	2018
222.7	2017
315.0	2017
124.3	2017
66.2	2018
261.9	2017
107.6	2017
444.6	2018
233.3	2018
193.5	2017
150.3	2018
529.5	2018
176.9	2018
61.4	2017
65.5	2017
115.1	2017
94.2	2017
171.3	2017
530.0	2017
533.3	2018

Expanding New Future

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Mr. ZHOU Yong
Chairman and Non-executive Director

The Group accurately capitalised on the changes in the macroeconomic environment, timely adjusted its operational strategies, consolidated its superior internal resources, effectively implemented the strategy of "driven by both traditional and new businesses"

The transformation of new business in Mainland China also made significant progress.

In 2016, Far East Global Group Limited and its subsidiaries (collectively the "Group") accurately capitalised on the changes in the macroeconomic environment, timely adjusted its operational strategies, consolidated its superior internal resources, effectively implemented the strategy of "driven by both traditional and new businesses", and proactively developed domestic and overseas markets. The newly awarded contract value of the curtain wall business hit all-time highs again. The general contracting business continued to grow steadily. The transformation of new business in Mainland China also made significant progress.

RESULTS

During the year ended 31 December 2016, the audited profit attributable to the owners of the Group was HK$88 million, representing a year-on-year increase of 23.7%; the Group's principal activities recorded a revenue of HK$2,647 million, representing a year-on-year increase of 20.6%; and earnings per share were HK4.10 cents, representing a year-on-year increase of 23.5%.

DISTRIBUTION OF DIVIDENDS

The board of directors declared a final dividend of HK0.8 cent per share for the year ended 31 December 2016, representing a year-on-year increase of 33%. The total dividends for the year amounted to HK1.6 cents per share, representing a year-on-year increase of 33%.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Market conditions

In 2016, the complex and grim-looking global economy was filled with "Black Swan" events, resulting in significantly higher uncertainties. The US economy recovered progressively with another rate hike by the Federal Reserve and strengthening US dollars. Brexit threw the international financial markets into turmoil, enshrouding the global economic outlook. Emerging economies remained in the doldrums while China's economy underwent transformation and correction, rendering larger downward pressure in the macro economy.

The construction market in North America showed reassuring signs and embarked on a virtuous growth cycle. The curtain wall market continued to grow on the back of economic recovery in the US. Taking advantage of the robust construction market in Hong Kong, the curtain wall business remained stable in terms of size. The Group adhered to the operational strategy of "rooting in Hong Kong and Macau, relying on Mainland China, exploring overseas markets, joining internal and external forces", persisted with its prudent bidding strategy, drew on internal synergy, and proactively developed premium projects that could enjoy branding effect.

1. Facade Contracting Business

The Group further consolidated its advantages in Hong Kong and Macau, the traditional key markets of the Group. The curtain wall market in Hong Kong was prosperous in general with the successive launch of major property development projects, whereas in Macau, the high-end curtain wall market shrank further with the apparent economic downturn. The Group is a leading high-end curtain wall total solution provider in the region and adopts the operational strategy of "big markets, big clients, big projects". Its brand is highly recognised by its key and major clients and promising new clients, contributing to the continuous business growth in the region. In 2016, the Group's newly awarded contract value in the region amounted to HK$1.44 billion, up 34% year-on-year, including Taikoo Place Phase 2A; the "Hong Kong Property for Hong Kong People" in Kai Tak; NKIL 6312, Lam Lee Street, Kowloon Bay; Nos. 12-24 Lun Fat Street, Wan Chai; TKOTL 126D, Area 68B2, Tseung Kwan O, NT in Hong Kong; and the commercial and residential development project of Nova City, Phase 5 in Taipa, Macau. The Group has put emphasis on managing the schedule, quality, safety, cash flow and efficiency of its projects in progress. Synergy is achieved by consolidating the internal design, procurement, production and installation resources of the Group. The Group has also been working on construction planning and design optimisation, controlling each key segment throughout the construction process rigorously, optimising project management and division of labour, and implementing incentive schemes to maximise project teams' motivation.

In 2016, the curtain wall industry in Mainland China saw turbulence and higher fragmentation with apparent and vicious competition on price. The Group has been selective in choosing curtain wall projects in Mainland China and has focused on major projects owned by landlords with good reputation. In 2016, in addition to the curtain wall projects for Apple stores in which we have been enjoying advantages, the Group explored similar boutique projects leveraging its branding effect and won several high-end residential and commercial office projects, such as the office building of 上海江森辦公樓 and Section III of Phase I of Upper Hills (south part) in Shenzhen.

The Group continued to consolidate its design, research and development centre and production site in Mainland China. To further increase its capacity, the Group acquired a land with more than 85,000 square metres in Jinwan District, Zhuhai during the year and started the construction of a new plant at the end of 2016.

In addition to the Greater China region and North America, the Group actively kept track of premium curtain wall projects in other overseas regions and continued to develop the Australia market with a design and supply model. The Group was awarded the project to supply apartment facilities for Aurora Melbourne Central in Melbourne, Australia in 2016.

The construction market in North America continued to recover. The Group paid special attention to profitable premium projects with controllable risks that were undertaken by private developers. In 2016, the projects in North America were still loss-making, but with strengthened project cost control and contract management as well as enhanced cross-field resources allocation and coordination, the negative impact of anti-dumping policy on US projects was drawing to a close with operating results trending up. The operation scale of the Group in North America expanded further. During the year, the Group was awarded the projects of 99 Hudson Street, New Jersey, US; Ice Tower A, Edmonton, Canada; True North Square, Winnipeg, Canada; and 620 King Street, Toronto, Canada, amounting to a newly awarded contract value of approximately HK$833 million. As at 31 December 2016, the contract value of uncompleted projects on hand in the North American market exceeded HK$1,330 million.

2. General Contracting Business

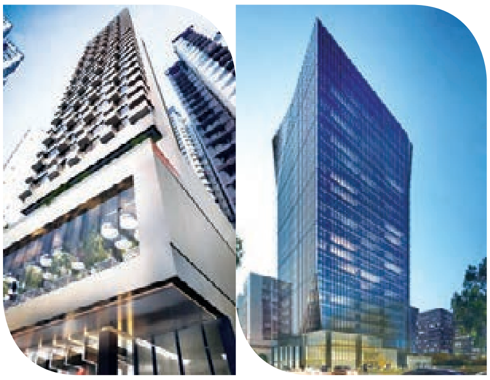
The projects in progress were making steady progress. The Emperor Hotel and "Hong Kong Property for Hong Kong People" projects were being carried out smoothly. Meanwhile, the Group actively participated in the bidding of medium and small housing projects in Hong Kong in an effort to work with property developers with Chinese background in Hong Kong, and won the residential development project in Tsing Lung Tau from MCC Real Estate.

3. New Business Expansion

The Group continued to push ahead investment transformation and new business expansion in Mainland China. In 2016, the Group established 中建城市發展管理諮詢有限公司 to develop municipal planning, management and consulting service business. It achieved internal synergy and made an effective breakthrough.

< UpperHills (south part)
∨ 中國上海江森辦公樓

CHAIRMAN'S STATEMENT



Nos. 12–24 Lun Fat Street, Wanchai, Hong Kong
NKIL 6312, Lam Lee Street, Kowloon Bay, Hong Kong

New Projects Awarded

In 2016, the Group undertook 36 projects in total with an aggregate contract value of HK$3,140 million. Among this, Asia Pacific and Greater China regions contributed HK$2,307 million, representing 73% of the total contract value, while the North America region accounted for HK$833 million, representing 27% of the total.

Projects in Progress

As at 31 December 2016, the Group's total contract value of projects in progress amounted to HK$7,229 million, among which the contract value attributable to uncompleted projects on hand amounted to HK$4,164 million.

Corporate Governance

Adhering to the corporate governance philosophy of honesty, integrity, transparency and efficiency, the Group strictly complied with various laws and regulations and abided by the Listing Rules and regulatory requirements. The Group continuously improved its corporate governance structure and measures to gradually establish and optimise a series of policy systems, internal control system and management mechanism and processes to ensure sound corporate governance. The board of directors strives to maintain high standard commercial ethics, healthy corporate culture and excellent corporate governance, so that the Group is able to actively adjust its business strategy in response to changes of market trends, allowing each professional decision-making teams to play its role and strengthening the regionalised governance capability of each business unit.

Risk Management and Control

The Group continued to improve its internal control system to enhance risk predictions and the effects of risk management and control, and promoted the integration of internal control and business processes. In response to changes in business environments and regulatory requirements, the Group strengthened supervision over major areas and key issues to prevent operational risks and eliminate management loopholes. The Group continued improving its management systems and mechanisms to ensure healthy operations.

The Group monitored the policies in overseas markets and the trends of exchange rates constantly and focused on the key cities in Europe and North America with relatively optimistic economic prospects to avoid political and exchange rate risks.

Financial Management

During 2016, the Group continued to enhance its financial management. Under the principle of stringent financial management, the Group improved the utilisation of its capital and actively expanded finance channel. In addition, the Group focused on expediting its collection of payments due from projects, therefore improving cash flow and liquidity. As at 31 December 2016, the Group's bank deposits amounted to a total of HK$387 million. Total borrowings amounted to HK$523 million, and the net gearing ratio was 15.7%. The Group had sufficient credit facilities to meet the needs of its future business development due to its sound financial conditions. At the same time, the Group had committed but unutilised credit facilities and other facilities like construction performance bond facility in aggregate of HK$900 million.

Human Resource Management

By persisting in the "people-oriented" managerial philosophy, the Group emphasises on attraction, retention, and cultivation of all levels of talents who recognise its corporate vision. The Group improves employee satisfaction and work efficiency by creating a variety of systems that cover an employee's recruitment, training, performance assessment and remuneration and have established a transparent and public selection and employment platform to provide its employees with a healthy environment for professional competition and development. During the year, the Group launched a lecture system to enrich training and exchange of ideas. The Group also continued to improve its KPI assessment for the purpose of establishing a comprehensive assessment system. The further implementation of the "Site Contracting Responsibility System" (《地盤目標管理責任制》), the "Design Contracting Incentives System" (《設計承包激勵制度》), the "Site-related Integrated Appraisal and Incentives Methods" (《地盤綜合獎勵評選辦法》) and the "Shenzhen Production Line Motivation System" (《深圳生產線激勵制度》) in Hong Kong, Macau and Mainland China has greatly improved the enthusiasm and work efficiency of employees. On 30 August, the Group held its first "830 Company Day" (830公司日) so that the employees and their families could understand the Company's corporate culture together and their sense of belonging could be enhanced through a variety of activities.

The Company has also formulated solutions targeted to the needs of employees for regimes, procedure, benefits and training and built a smooth communication platform to create a sound communication atmosphere and contribute ideas for the development of the Company.

As at 31 December 2016, the Group had a total of 1,585 employees.

Social Responsibilities

The Group has been a participant in public welfare events such as "Walks for Millions" and "Kids' Dream" for many years. The Group is also named a "Caring Company" by actively promoting the "Earth Hour" event, demonstrating its dedication towards the community and contribution to social harmony and stability.

PROSPECTS

In 2017, given the complex and ever-changing political and economic environments in the world, progressive development of Brexit, higher volatility in financial markets as well as the upsurge of trade protectionism, the prospect of the global economy is full of uncertainties and challenges. The US economy continues to be on an uptrend while developed economies such as Europe and Japan recover slowly. With the fluctuations in exchange and interest rates and commodity prices, emerging economies would continue to search for a bottom in general. In the short run, China's economy still faces considerable downward pressure. However, following the further implementation of the "13th Five-Year Plan", supply-side structural reform and "the Belt and Road", China's economy will have huge growth potential in the future.

The construction market in North America is expected to recover continuously with the launch of stimulus policy for infrastructure in the US and drive the curtain wall market to grow rapidly. The US is set to become an important overseas market. Hong Kong economy remains stagnant with a stable market size overall despite stiffer competition. In Macau, the economy is still mired in recession, the high-end curtain wall market is expected to fall further. The imbalance between demand and supply in the curtain wall market in Mainland China manifests, resulting in more disordered competition.

Aurora Melbourne Central

CHAIRMAN'S STATEMENT

∧ *Nova City, Phase 5, Macau*
< *TKDTL 126, Area 68B2, Tseung Kwan O, Hong Kong*

Business and Development Strategies

The Group will continue to focus on the work schedule, quality, safety, capital and cost management of projects while improving the synergies created during design, production and installation processes. The Group will sharpen its integrated competitive edges in its curtain wall business. Efforts will be made to further improve branding and market development, strengthen management over projects on hand and consolidate the Group's core competitiveness in design, procurement, production and construction. By integrating resources and adhering to the business philosophy of "closely focusing on high-end markets and providing high-quality services", the Group will increase its market share in the three major markets, namely Hong Kong and Macau, North America and Mainland China. Meanwhile, the Group will explore other overseas markets such as Australia, the United Kingdom and Asia-Pacific region while maintaining desired profitability.

The Group highly values the building of its design teams, and will strengthen its design teams in Hong Kong and North American while expanding its design teams in Mainland China, by continuously recruiting additional experts to meet the demand for professionals at peak seasons. Meanwhile, the Group will provide stronger supports to its personnel serving overseas, including establishing the basic policies for overseas core management team setup and remuneration and benefits of personnel serving overseas, thereby maintaining the stability of overseas teams and enhancing the Group's cohesiveness and competitive strengths.

The Group will strengthen its system, make a plan in advance and facilitate communication for project design and construction plan evaluation. In addition, the Group will dovetail the design and production processes of projects to elevate the contract business management levels. Efforts will be increased to improve planning for procurement of materials and for better process-oriented management to ensure successful completion of all projects.

In respect of its general contracting business, the Group will learn from its controlling shareholder — China State Construction International Holdings Limited's ("CSCIHL") rich experience in project management, in particular general contracting, bringing into play the synergistic effects with CSCIHL in Hong Kong to secure premium projects.

In respect of new business field, the Group will continue to enhance its research efforts in investment and transformation and improve the operation model of its new business by actively interacting and cooperating with the parent company and leveraging their rich experiences and resources while taking into account of the current situation and national policies. By doing so, the Group strives to attain economy of scale and foster new growth drivers as early as possible and achieve its dual-core-driven strategic objective.

The board of directors is able to discern and face various problems that may arise in the course of development and wishes to establish and maintain a healthy system integrating the mutual interests of shareholders, the board of directors, management and general employees as well as customers to promote sustainable growth of the Group's revenue and profitability.

APPRECIATION

I would like to take this opportunity to express my heartfelt gratitude to all shareholders and customers for their strong support and to all employees for their hard work and commitment.

By Order of the Board
FAR EAST GLOBAL GROUP LIMITED
Zhou Yong
Chairman and Non-executive Director

Hong Kong, 16 March 2017

99 Hudson, Jersey City, New Jersey, USA

A New Voyage,
Far East Global Sails to A New Direction

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL PERFORMANCE

Under the volatile global economic environment and market fluctuation, our core construction business continued to grow with the aggregate revenue of HK$2,647 million for the year ended 31 December 2016 (2015: HK$2,195 million), an increase of 20.6% as compared to last year. The profit attributable to owners of the Company increased from HK$71 million for the year ended 31 December 2015 to HK$88 million for the year ended 31 December 2016. The net cash from operating activities turned around to be net cash inflow of HK$145 million (2015: net cash outflow of HK$18 million) during the year. The basic earnings per share was HK4.10 cents (2015: HK3.32 cents), representing the growth of 23.5% over last year. The Board of Directors recommends the payment of a final dividend of HK0.8 cent per share and together with the interim dividend of HK0.8 cent per share paid in the year, the total dividends for the year amounted to HK1.6 cents per share, representing 39% payout of the distributable profit for the year.

Segment analysis

Facade Contracting Business

With the strong backlog in Hong Kong and Macau over the last few years and new contribution from Australian market for the year, the segment's revenue recorded an increase to HK$2,190 million for the year ended 31 December 2016 (2015: HK$2,041 million). However, the strong performance of the Hong Kong and Macau region was partially offset by the loss of previous projects in North America which resulted in the decrease of the segment profit to HK$37 million (2015: HK$88 million).

^ Edmonton Ice Tower A, Canada

General Contracting and Other Business

Since expanding into the general contracting business in 2014, the segment recorded a steady growth in the revenue and profit contribution during the year due to the sustainable development of the construction industry in Hong Kong. The segment delivered a satisfactory growth of revenue to HK$457 million for the year ended 31 December 2016 (2015: HK$154 million). The segment profit increased by 4.5 times to HK$50 million for the year ended 31 December 2016 (2015: HK$9 million).

Urban Planning Management and Consultation Business

The Group have actively explored the new business in urban planning management and consultation business. In December 2016, the Group established 中建城市發展管理諮詢有限公司 to develop municipal planning, management and consulting service business.

Administrative, selling and other operating expenses

Expenses have been managed tightly and the business is on track to deliver the planned cost efficiencies for the year, administrative expenses decreased by 8% to HK$161 million (2015: HK$175 million).

Finance costs

For the year ended 31 December 2016, the Group's finance costs increased to HK$ 15 million (2015: HK$11 million) as a result of the increase in bank borrowings.

^ 620 King Street, Toronto, Canada
< True North Square 242 Hargrave Street, Winnipeg, Canada

New contracts awarded

The Group recorded a new contract value of HK$3,140 million for the year ended 31 December 2016, representing a growth of 17.0% as compared to last year. Major new contracts include the following:

Facade Project

- One Kai Tak, Hong Kong
- NKIL 6312, Lam Lee Street, Kowloon Bay, Hong Kong
- Nos. 12-24 Lun Fat Street, Wan Chai, Hong Kong
- Taikoo Place Phase 2A, Hong Kong
- TKOTL126, Area 68B2, Tseung Kwan O, Hong Kong
- Nova City, Phase 5, Macau
- Upper Hills (South Area), Shenzhen, Mainland China
- 江森辦公樓, Shanghai, Mainland China
- Aurora Melbourne Central, Melbourne, Australia
- Edmonton Ice Tower A, Edmonton, Canada
- True North Square 242 Hargrave Street, Winnipeg, Canada
- 620 King Street, Toronto, Canada
- 99 Hudson, Jersey City, New Jersey, USA

General Contracting Project

- Lot No. 70, Tsing Lung Tau, Tsuen Wan, Hong Kong

MANAGEMENT DISCUSSION AND ANALYSIS

As of 31 December 2016, the on-hand contract value amounted to HK$7,229 million, among which the backlog was HK$4,164 million which meets the Group's expected future works.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internally generated cash flow and credit facilities provided by its principal bankers. At 31 December 2016, the Group had bank balances and cash of HK$387 million (31 December 2015: HK$200 million), total borrowings of the Group were HK$523 million (31 December 2015: HK$393 million). The Group's net gearing ratio (net debt to total net assets) as at 31 December 2016 was approximately 15.7% (31 December 2015: 20.3%). Furthermore, the Group had unutilised banking facilities (including performance guarantee facilities, working capital facilities and loan facilities) of approximately HK$900 million, the Group had sufficient financial resources to meet the business development and expansion. The Group's borrowings are principally on a floating rate basis and have not been hedged by any interest rate financial instruments.

The maturities of the Group's total borrowings as at 31 December 2016 and 31 December 2015 are set out as follows:

	31 December 2016 HK$'000	31 December 2015 HK$'000
On demand or within one year	**322,843**	180,391
More than one year but not exceeding two years	**—**	12,720
More than two years but not more than five years	**200,000**	200,000
Total borrowings	**522,843**	393,111

The portfolio of the currencies of bank deposits of the Group as at 31 December 2016 and 31 December 2015 is set out as follows:

	31 December 2016 %	31 December 2015 %
Hong Kong Dollars	**58**	36
United States Dollars	**18**	6
Renminbi	**14**	27
Macau Pataca	**5**	21
Others	**5**	10

As at 31 December 2016, the Group's equity attributable to owners of the Company amounted to HK$929 million (31 December 2015: HK$1,173 million), comprising issued capital of HK$22 million (31 December 2015: HK$22 million) and reserves of HK$907 million (31 December 2015: HK$1,151 million).

^ *One Kai Tak, Hong Kong*

TREASURY POLICY

The Group adopts a conservative treasury policy in cash and financial management. The Group's treasury activities are centralised in order to achieve better risk control and minimise cost of funds. Cash is generally placed in short-term deposits mostly denominated in Hong Kong dollar or US dollar. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2016, the Group employed a total of 1,585 (31 December 2015: 1,665) employees. The Group has sound policies of management incentives and competitive remuneration, which align the interests of management, employees and shareholders' alike. The Group sets its remuneration policy by reference to the prevailing market conditions and the performance of the individuals concerned, subject to review from time to time. The components of the remuneration package consist of base salary, allowances, fringe benefits including medical insurance and contributions to pension funds as well as incentives such as discretionary bonus and participation in the share option scheme.

^ *Taikoo Place Phase 2A, Hong Kong*

DIRECTORS AND ORGANISATION

BOARD OF DIRECTORS

Mr. ZHOU Yong

Chairman and Non-executive Director
Chairman of the Nomination Committee
Member of the Remuneration Committee

Aged 46, was appointed as Chairman of the Board and a Non-executive Director on 2 March 2012. Mr. Zhou graduated from Changsha Academy of Military Engineering and University of South Australia. He is Fellow of The Chartered Institute of Building (UK) and The Institution of Civil Engineers (UK). Mr. Zhou joined China State Construction Engineering Corporation ("CSCEC") in 1994 and was seconded to China State Construction International Holdings Limited ("CSCIHL", a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) in 1996. He has been a director of certain subsidiaries of CSCIHL since 2001. Currently, Mr. Zhou is an executive director, chairman and chief executive officer of CSCIHL and a director of China Overseas Holdings Limited ("COHL"). CSCEC, COHL and CSCIHL are all controlling shareholders of the Company. He was awarded the "Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)" by The Hong Kong Institute of Directors in 2009. Mr. Zhou has more than 24 years of experience in construction, project and corporate management in Mainland China and Hong Kong, in particular, specialising in investment and new business start-up development, formulating and executing business strategies for companies.

Mr. ZHU Yijian

Vice Chairman, Executive Director and Chief Executive Officer
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 50, was appointed as Vice Chairman of the Board and an Executive Director on 16 July 2014 and as Chief Executive officer on 21 September 2015. Mr. Zhu is also a director of the Company's subsidiaries. He graduated from the Xi'an University of Architecture and Technology and Hong Kong Open University, holder of master degree, senior economist. Mr. Zhu joined CSCEC in 1988 and was seconded to COHL in 1994. He was deputy general manager of CSCIHL from February 2002 to December 2004, and general manager of Human Resources Department of COHL from April 2003 to July 2012. Mr. Zhu has been assistant general manager of COHL since 2005. He was an executive director of China Overseas Land & Investment Ltd. (a company listed on the Main Board of the Stock Exchange) between March 2007 and August 2009 and vice president of COHL Investment Developing Holdings Limited between July 2012 and June 2014. Mr. Zhu is a director of COHL. He has over 29 years of experience in corporate human resources management, staff training and project investment.

DIRECTORS AND ORGANISATION

Mr. LUO Haichuan

Executive Director, Senior Vice President

Aged 37, was appointed as an Executive Director on 21 September 2015. Mr. Luo is Senior Vice President of the Group, responsible for new business development and human resources functions. He is also a director of the Company's subsidiaries. Mr. Luo graduated from the Harbin Institute of Technology and obtained a Master's degree in Business Administration from Hong Kong Baptist University. He joined COHL in 2003 and has been a director of certain subsidiaries of CSCIHL since 2011. Mr. Luo was appointed assistant general manager of CSCIHL in August 2014 overseeing the CSCIHL group's business development in Mainland China. He has over 14 years of experience in investment and financing, research and human resources management.

Mr. WANG Hai

Executive Director, Senior Vice President

Aged 44, was appointed as an Executive Director on 15 August 2012. Mr. Wang is Senior Vice President of the Group, responsible for the Group's operations in the North America region. He is also a director of the Company's subsidiaries. Mr. Wang joined the Group in March 2012 and held various senior management positions including Chief Executive Officer and Associate Chief Executive Officer of the Company. He ceased to be Associate Chief Executive Officer on 21 September 2015 when he was reallocated to North America taking charge of North America business. Mr. Wang graduated from Tianjin University and Greenwich University and is a member of the Royal Institution of Chartered Surveyors. He joined CSCEC in 1994 and started getting involved in the operation of certain subsidiaries of CSCIHL since 2003. Mr. Wang is a director of certain subsidiaries of CSCIHL. He has over 23 years of experience in construction engineering and project contract management as well as several years of experience in infrastructure investment.

Mr. CHAN Sim Wang

Executive Director and Chief Financial Officer

Aged 48, was appointed as an Executive Director and Chief Financial Officer on 2 March 2012. Mr. Chan is also a director of the Company's subsidiaries. He graduated from Hong Kong Baptist University (formerly known as Hong Kong Baptist College). Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, Fellow of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. He joined the CSCIHL Group in 1997 and is a director of certain subsidiaries of CSCIHL. Prior to joining the Company, Mr. Chan was deputy general manager of Finance and Treasury Department of CSCIHL. He has over 24 years of experience in finance, accounting and auditing. Mr. Chan has experience in supervising the accounts and finance departments of various subsidiaries of CSCIHL in Mainland China and overseas.

Mr. QIN Jidong

Executive Director, Vice President

Aged 48, was appointed as an Executive Director on 11 March 2014. Mr. Qin is Vice President of the Group, responsible for the Group's operations in the United States and in Dubai. He is also a director of the Company's subsidiaries. Mr. Qin joined the Group as Vice President in 2012 overseeing the Group's overseas construction business. He graduated from Tianjin University and the Loughborough University, UK. Mr. Qin joined the CSCIHL Group in 1996 and has been a director of certain subsidiaries of CSCIHL since 2004. He has over 24 years of experience in international construction project management.

DIRECTORS AND ORGANISATION

Mr. ZHOU Jinsong

Independent Non-executive Director
Chairman of the Audit Committee
Member of the Nomination Committee
Chairman of the Remuneration Committee

Aged 46, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non-executive Director on 10 March 2010. Mr. Zhou graduated from Guangdong Radio and TV University in 1992 and obtained a Master of Business Administration degree from Harbin Institute of Technology in 2003. He is a Certified Public Accountant licensed in the People's Republic of China ("PRC"). Mr. Zhou has extensive experience in accounting, audit and business advisory in various audit firms and private companies in the PRC. He was an accountant supervisor in the fund management office of the Shenzhen Cultural Development Department (深圳市宣傳文化事業發展專項基金領導小組辦公室) from 1995 to 2002. Mr. Zhou is currently the president of Weiya, an accounting firm in Shenzhen.

Mr. HONG Winn

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 47, was appointed as a Director on 8 March 2010 and was subsequently designated as an Independent Non-executive Director on 10 March 2010. Mr. Hong obtained a Bachelor of Science degree in Aerospace Engineering and a Master of Science degree in Mechanical Engineering from the University of California, Los Angeles in 1993 and 1996, respectively. He graduated from the University of Chicago with a Master of Business Administration degree in 2005. Mr. Hong is a Senior Director for Technology and Business Development for the Alfred E. Mann Institute for Biomedical Engineering at the University of South California (AMI-USC) focusing on biotechnology, medical device, and medical and health care technologies. He has over 17 years of experience in high-tech product development and high-tech start-up success and leadership.

Ms. KWONG Sum Yee Anna

Independent Non-executive Director
Member of the Audit Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Aged 67, was appointed as an Independent Non-executive Director on 1 July 2013. Ms. Kwong is managing director of Anna Kwong Architects & Associates. She holds a Bachelor of Arts degree (Honours) in Architectural Studies and a Bachelor of Architecture degree from the University of Hong Kong. Ms. Kwong is a Registered Architect in Hong Kong and an Authorised Person (List of Architects) of Hong Kong. She possesses Class 1 Registered Architect Qualification of the PRC. Ms. Kwong is a past president and fellow of the Hong Kong Institute of Architects, an ex-member of the Hong Kong Architects Registration Board and a member of the Hong Kong Institute of Directors. She has over 39 years of professional experience in the architectural field.

DIRECTORS AND ORGANISATION

SENIOR MANAGEMENT

Mr. SUN Xinggen

Vice President

Aged 60, joined the Group in July 2013 and is responsible for the Group's operations in the Asia Pacific region excluding Mainland China, and in the United Kingdom. Mr. Sun joined the CSCIHL Group in 1994 and has over 33 years of experience in construction engineering and commercial contract management in Hong Kong, Macau and Mainland China as well as several years of experience in managing infrastructure investment.

Mr. HO Wai Man, Raymond

Vice President

Aged 55, joined the Group in April 2012 and is responsible for the general management of the Group's projects in the Asia Pacific region excluding Mainland China. Mr. Ho received his Bachelor of Science degree in Civil Engineering from the National Cheng Kung University, Taiwan in 1984 and a Master of Science degree in Civil Engineering from the Queen's University of Belfast, United Kingdom in 1986. He is a member of Hong Kong Institute of Construction Managers. Mr. Ho joined the CSCIHL Group in 1994 and has over 31 years of experience in engineering, construction, contract administration, project management, tendering and business development in Hong Kong and overseas.

Mr. TAN Yong

Deputy Chief Financial Officer

Aged 41, joined the Group in September 2016 and is responsible for the treasury function of the Group and in charge of the Finance Department of certain subsidiaries in Mainland China. Mr. Tan graduated from Huazhong University of Science and Technology and Zhongnan University of Economics and Law, and holds a Master's degree in Accountancy. He is a member of Chartered Institute of Management Accountants of the United Kingdom and Chartered Global Management Accountant. Mr. Tan joined COHL in 2000 and has over 15 years of experience in finance, accounting, taxation and funds management in property development, construction and infrastructure investment businesses.

Mr. HONG Jianping

General Manager, Far East Facade Manufacturing (Shenzhen) Company Limited

Aged 51, joined the Group in September 2014 and is responsible for the general management of Far East Facade Manufacturing (Shenzhen) Company Limited. Mr. Hong graduated from Xi'an Institute of Metallurgical Construction with a Bachelor of Engineering degree and from Nankai University with a Master of Business Administration degree. He joined the COHL Group in 1998 and the CSCIHL Group in 2008. Mr. Hong has over 27 years of experience in investment, mergers and acquisitions, and plant management.

Mr. LI Xuguang

General Manager, Netfortune (Shanghai) Aluminium Works Co., Ltd.

Aged 51, joined the Group in 2008 and is responsible for the general management of Netfortune (Shanghai) Aluminium Works Co., Ltd. Mr. Li received his Bachelor of Engineering degree from Wuhan Polytechnic University in 1987. He has over 29 years of experience in engineering and project management.

Mr. Edward M. BOYLE, III

President, Gamma USA, Inc.

Aged 56, joined the Group in September 2012 and is responsible for the general management of Gamma USA, Inc. Mr. Boyle has held various senior management positions including vice president, president, chief operating officer, chief executive officer, and director with industry leading designers, manufacturers and installers of bespoke curtain wall and cladding systems in North America, Europe and Asia. He has over 33 years of industry experience.

Mr. LAU Sai Ying, Alan

Marketing Director, Far East Aluminium Works Company Limited

Aged 56, joined the Group in 1997 and is responsible for the marketing function of the Group except for the North America region and Mainland China. Mr. Lau received his Bachelor of Science degree in Civil Engineering from the University of Manitoba, Canada in 1981. He is a member of Hong Kong Institution of Engineers, a registered professional engineer in Hong Kong and professional engineer for the Province of Ontario, Canada. Mr. Lau has over 27 years of construction, engineering and facade system project management and marketing experience in Canada and Hong Kong.

Mr. MOK Wai Him

Project Director, Far East Aluminium Works Company Limited

Aged 56, joined the Group in 1996 and is responsible for the project management of the Group's projects in the Asia Pacific region excluding Mainland China. Mr. Mok received his Bachelor of Science degree in Applied Physics from the University of Essex, United Kingdom in 1983 and a Master's degree in Instrumentation and Analytical Science from the University of Manchester Institute of Science and Technology, United Kingdom in 1986. He is a member of the Institute of Measurement and Control in the United Kingdom and an associate member of the Chartered Institution of Building Services Engineers. Mr. Mok has over 28 years of experience in project management.

Mr. CHAN Sun Nung

Technical Director, Far East Aluminium Works Company Limited

Aged 57, joined the Group in 2003 and is responsible for the facade design function of the Group except for the North America region. Mr. Chan received his Master's degree in Construction Engineering and Management from Griffith University, Australia in 2006 and has been a council member of Hong Kong Facade Association since 2005. He has over 36 years of experience in curtain wall design.

CORPORATE GOVERNANCE REPORT

GOVERNANCE FRAMEWORK

The Company is committed to building and maintaining high standards of corporate governance to promote corporate accountability, transparency and integrity. The Board recognises that good corporate practices are fundamental to the smooth and effective operation of the Group and protection of the interests of shareholders and other stakeholders.

The Company has applied the principles, and complied with all code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2016.

THE BOARD

The Board is responsible for promoting the overall success of the Company and delivering long-term value to shareholders. The Board has delegated the management and day-to-day running of the Group to the Company management and certain matters to the Board committees, which are described more fully in the "Board Committees" section of this report. The Board reserved for its consideration and decision certain other matters which include:

- determining the Group's strategic direction;
- approving financial reporting including the annual, half-year and quarterly results;
- approving interim, and recommending final, dividends;
- approving major acquisitions, disposals and capital expenditure, and certain material contracts;
- approving Board appointments;
- approving broad policies and systems of internal control and risk management (supported by the Audit Committee); and
- approving the Group's corporate governance and compliance arrangements.

As at 31 December 2016, the Board comprised nine Directors — five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The Directors have a broad range of expertise and experience, which we believe, contributes significantly to the effectiveness of the Board. The names of the Directors in office during 2016 are set out in the "Board of Directors and Committees" section of this Annual Report and their biographical details are set out on pages 31 to 35.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and continues to consider each of them to be independent.

The roles of Chairman and Chief Executive Officer are performed by separate individuals in accordance with the CG Code. There is a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority so that no one individual should have unfettered powers of decision. The Chairman of the Board, Mr. Zhou Yong, is responsible for providing effective leadership of the Board and ensuring that Directors receive relevant and timely information and that all key and appropriate issues are discussed in a timely manner. The Chairman is also responsible for promoting open discussion and constructive debates in the boardroom and ensuring that good corporate practices and procedures are established. The Chief Executive Officer, Mr. Zhu Yijian, is responsible for managing the business of the Group, formulating and executing the Group's strategic plan and policies and keeping the Board informed of all relevant matters.

Board meetings shall be held at least once every quarter. Additional meetings of the Board or the Board committee established by it to consider specific matters, can be convened, when necessary. During the year, the Board held four regular meetings and one special meeting. Notice of at least 14 days is given to Directors of regular Board meetings and all Directors are given the opportunity to include matters in the agenda for discussion. The Board is supplied with an agenda and supporting documentation at least three days prior to the regular Board and committee meetings. The Board receives briefing from the chairmen of the Audit, Nomination and Remuneration Committees following meetings of these Committees.

The attendance of Directors at general meetings, meetings of the Board and Board committees of which they were members during the year is set out in the table below.

	Meetings attended/eligible to attend				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meetings
Chairman and Non-executive Director					
Zhou Yong	5/5	-	2/2	1/1	1/1
Executive Directors					
Zhu Yijian	5/5	-	2/2	1/1	1/1
Luo Haichuan	5/5	-	-	-	1/1
Wang Hai	4/5	-	-	-	1/1
Chan Sim Wang	5/5	-	-	-	1/1
Qin Jidong	3/5	-	-	-	1/1
Independent Non-executive Directors					
Zhou Jinsong	5/5	4/4	2/2	1/1	1/1
Hong Winn	5/5	4/4	2/2	1/1	1/1
Kwong Sum Yee Anna	5/5	4/4	2/2	1/1	1/1

Each Director is fully aware of his duties and responsibilities as a Director of the Company and the requirement to give sufficient time and attention to the affairs of the Company. The Non-executive Directors provide a strong, independent element on the Board and collectively bring independent and objective judgement to bear on Board decisions through regular attendance and active participation in the meetings of the Board and the Board committees on which they serve.

Directors have access to relevant and timely information, and they can ask for further information if necessary. They also have access to the advice and services of the Company Secretary and, if required, can seek independent professional advice at the Company's expense. There is an agreed procedure to enable them to do so which is managed by the Company Secretary. Directors are given sufficient time for discussion at the Board meetings. Where queries are raised by Directors, prompt and full responses will be given if possible.

If a conflict of interest involving a substantial shareholder or a Director arises, the matter will be discussed at a physical meeting, as opposed to being dealt with by written resolution. Independent Non-executive Directors with no material interest in the proposed matter or transaction will be present at the meeting to deal with the conflict.

CORPORATE GOVERNANCE REPORT

The Company has in place appropriate directors and officers insurance cover in respect of legal action against Directors. The coverage and sum insured under the directors and officers issuance policy are reviewed annually.

All Non-executive Directors are appointed under letters of appointment for specific terms. Directors appointed by the Board shall hold office until the first general meeting following their appointments in the case to fill a casual vacancy or until the next following annual general meeting in the case as an addition to the Board. Such Directors shall then be eligible for re-election. In addition, all Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. A retiring Director is eligible for re-election and re-election of retiring Directors at general meetings is dealt with by separate resolutions.

All newly-appointed Directors are briefed on the duties and responsibilities they owe as directors to the Company as well as on the relevant Company policies and key governance issues following their appointments. Directors are encouraged to attend internal and external briefings and courses on aspects of their respective committee specialisms. Training and regular updates on relevant legal, regulatory and corporate governance matters are provided to Directors as appropriate.

All Directors are required to provide training records to the Company on a regular basis and such records are maintained by the Company Secretary.

During the year, the participation of individual Directors in the continuing professional development activities is set out as below:

	Attending seminars, conferences, courses or briefings, or giving talks	Reading relevant materials
Chairman and Non-executive Director		
Zhou Yong	√	√
Executive Directors		
Zhu Yijian	√	√
Luo Haichuan	√	√
Wang Hai	√	√
Chan Sim Wang	√	√
Qin Jidong		√
Independent Non-executive Directors		
Zhou Jinsong	√	√
Hong Winn		√
Kwong Sum Yee Anna	√	√

BOARD COMMITTEES

The Board currently has three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee and each of which has specific written terms of reference approved by the Board. The terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee are available on the Company's website or, on request, from the Company Secretary. All committees report back to the Board on their decisions and recommendations on a regular basis.

The committees are provided with all necessary resources including access to independent professional advice, if necessary, to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the committees.

Audit Committee

The Audit Committee is composed of the three Independent Non-executive Directors with Mr. Zhou Jinsong as chairman and Mr. Hong Winn and Ms. Kwong Sum Yee Anna as members of the committee. All the members served on the committee throughout the year. Mr. Zhou Jinsong possesses appropriate professional qualifications and experience in financial matters which is in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee meets at least four times a year and its primary duties include ensuring the Group's financial statements (including annual, half-year and quarterly results) present a true and balanced assessment of the Group's financial position; reviewing the Group's financial reporting process, internal control and risk management systems; reviewing the Group's financial and accounting policies and practices; and recommending the appointment and approving remuneration of external auditor. Other duties of the Audit Committee are set out in its specific terms of reference.

The committee met four times during the year. The Chief Financial Officer and Financial Controller were also regular attendees at the meetings of the committee. External auditors were invited to attend two of those meetings to discuss various accounting issues and findings and the audit plan with the committee.

The work of the committee during the year included reviewing the results announcements and financial statements for the year ended 31 December 2015, and for the first quarter, half-year and third quarter of 2016, the annual report and interim report. To aid its review, the committee considered the reports from the Chief Financial Officer and the report from external auditors on the outcomes of the annual audit. The committee also reviewed the connected transactions, internal control, risk management and internal audit matters, approved the audit strategy and plan for the 2016 year end audit and made recommendation on the reappointment of auditor.

In addition, the Audit Committee monitors the audit and non-audit services rendered to the Group by its external auditor to ensure that their engagement in non-audit services will not impair their audit independence or objectivity. An independence confirmation has been obtained from PricewaterhouseCoopers which confirms that they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

The fees in respect of audit and non-audit services provided to the Company and its subsidiaries by PricewaterhouseCoopers and other firms of its worldwide network for the financial year ended 31 December 2016 amounted to approximately HK$2,371,000 and HK$482,000 respectively. The non-audit services mainly consist of tax services and other services for ad hoc projects.

CORPORATE GOVERNANCE REPORT

The Audit Committee was satisfied with the findings of its review of the audit fees, process and effectiveness, independence and objectivity of PricewaterhouseCoopers and agreed that it is appropriate to recommend to the Board that PricewaterhouseCoopers be re-appointed as auditor for a further year and, accordingly a resolution will be put to shareholders at the 2017 annual general meeting of the Company recommending their reappointment.

Nomination Committee

The Nomination Committee is chaired by Mr. Zhou Yong, the Chairman of the Board and Non-executive Director and its other members include Mr. Zhu Yijian, Vice Chairman, Executive Director and Chief Executive Officer and the three Independent Non-executive Directors, namely, Mr. Zhou Jinsong, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Nomination Committee meets as necessary and is responsible for reviewing the Board structure, size and composition, identifying and nominating to the Board candidates who are appropriate for appointment or reappointment as Directors, assessing the independence of Independent Non-executive Directors and making recommendation to the Board on succession planning.

The Nomination Committee held one meeting during the year. The work of the committee during the year included consideration of the composition of the Board to ensure there was an appropriate balance of skills, knowledge and experience and the independence of Independent Non-executive Directors, and considering and making recommendation to the Board on the re-appointment of the retiring Directors at the annual general meeting. There has been a formal procedure for the appointment of Directors to the Board which may involve the Nomination Committee meeting candidates proposed by existing Board members, if necessary. Careful consideration is given to ensure appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board is maintained. When the committee has found a suitable candidate, the chairman of the committee will make a proposal to the Board since the appointment is the responsibility of the whole Board following recommendation from the committee.

The Board has adopted a Board diversity policy. Differences in background, skills, industry experience, gender, age and other qualities will be considered in determining the optimum composition of the Board and the aim will be to balance them appropriately to ensure that the composition is appropriate to the business of the Company and the range and breadth of markets in which the Group operates. The Company is focused upon increasing Board diversity without compromising on the calibre of directors and the overriding principle is that all appointments to the Board will be based on merit as well as complementing and expanding the skills, knowledge and experience of the Board as a whole. During the annual review of the Board composition and in determining suitable candidates for the Board appointment during the year, the committee has paid due regard for the benefits of diversity on the Board.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Zhou Jinsong, an Independent Non-executive Director and its other members include Mr. Zhou Yong, the Chairman of the Board and Non-executive Director, Mr. Zhu Yijian, Vice Chairman, Executive Director and Chief Executive Officer and two Independent Non-executive Directors, namely, Mr. Hong Winn and Ms. Kwong Sum Yee Anna. All members served on the committee throughout the year.

The Remuneration Committee meets as necessary and is responsible for formulating and making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management of the Group with reference to the Group's overall performance, individual's responsibilities and performance and the prevailing market conditions, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure and other compensation related issues. The Remuneration Committee determines the remuneration packages of individual Executive

Directors and senior management and reviews the adequacy and effectiveness of the Group's remuneration policy. The committee also has the responsibility to make recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee held two meetings during the year. The committee made recommendations to the Board on the remuneration of Independent Non-executive Directors which was determined with reference to their responsibilities, time commitment, and the then prevailing market conditions. The committee also reviewed and approved the annual salary adjustment and discretionary bonus of individual Executive Directors and senior management of the Company which were determined based on the Group's overall performance as well as individuals' performance. In addition, the committee reviewed and considered the appropriateness and relevance of the remuneration policy and structure of the Group with reference to the construction market practices, the Group's performance and remuneration offered by peer companies.

Remuneration of Directors and Senior Management

Information relating to the remuneration of each Director for the year ended 31 December 2016 is set out in note 10 to the consolidated financial statements.

The remuneration of members of the senior management by band for the year end 31 December 2016 is set out in note 11 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Board has undertaken the responsibility for performing the corporate governance duties pursuant to the CG Code and is committed to ensuring that an effective governance structure is in place to continuously review, monitor and improve the corporate governance practices within the Group with regard to the prevailing legal and regulatory requirements.

During the year, the work of the Board in this area included reviewing the policies and practices on the Group's corporate governance, monitoring the Company's legal and regulatory compliance and training and continuing professional development of Directors and senior management, developing relevant policies to ensure compliance with the latest change in the laws and regulations and reviewing the Company's compliance with the CG Code and the disclosure in this report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Director's securities transactions. Having made specific enquiry by the Company, all Directors have confirmed that they have complied with the Model Code in their securities transactions throughout the year ended 31 December 2016.

ACCOUNTABILITY AND AUDIT

Financial Reporting

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

CORPORATE GOVERNANCE REPORT

Management is responsible for providing such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other matters put before the Board for approval. All members of the Board are provided with regular updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Director, individually and collectively, to discharge their legal and regulatory duties.

The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of Hong Kong Financial Reporting Standards and the applicable laws have been complied with.

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2016. The Directors, having made appropriate enquiries, were not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern and on such basis, the Board has prepared the financial statements on a going concern basis.

The responsibilities of external auditors of the Company with respect to financial reporting are set out in the "Independent Auditor's Report".

Internal Controls and Risk Management

The Board is responsible for maintaining appropriate systems of internal control and risk management, policies and procedures within the Group and the Audit Committee has the delegated responsibility to assess on an ongoing basis the effectiveness and relevancy of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Processes and procedures have been put in place to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use and for publication and to ensure compliance with applicable laws, rules and regulations.

The Group has established a risk management framework to enable the Board and the management of the Company to discharge their risk management-related responsibilities with appropriate delegation and checks and balances. Various operational committees including Investment Committee, Project Tendering Committee, Procurement and Subcontracting Committee and 3MS Committee which stand at the highest level of the Group's risk governance structure below the Board have been established to manage the risks and opportunities across the project lifecycle. These committees provide direct oversight of the formulation of institutional risk appetite, and control and monitor the levels of risk that the Group is willing to undertake with regard to its financial capacity, strategic direction, prevailing market conditions and regulatory requirements.

The Group's risk management framework consists of seven approval and review gates, spanning initial project pursuit through to delivery and completion. All gates are mandatory and require approval at Group level by the operational committees, by divisional or business unit level depending upon the nature and complexity of projects.

The Group's internal audit function is performed by the holding group's Intendance and Audit Department and an ad hoc team mandated from time to time to carry out regular and irregular audit on the governance and control processes of the Group. The findings and recommendations were reported to the Audit Committee. Following an annual review of the effectiveness of the financial, operational and compliance controls and risk management functions of the Group and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function, the Board confirms that no material control failure was noted and there were adequate resources and expertise in the accounting and financial reporting function.

In addition to the inside information disclosure policy adopted by the Board, the Group has in place policies and procedures to regulate employees conduct on handling, disseminating and preserving confidential information (including inside information) with designated teams to review their implementation and monitor compliance.

The Group will continue to review and develop risk management and internal control systems and procedures to manage and mitigate the impact of risks both within and outside its control.

COMPANY SECRETARY

The Company Secretary is an employee of the Group and the appointment and removal of the Company Secretary is a matter for the whole Board. Whilst the Company Secretary reports to the Board through the Chairman and the Chief Executive Officer, all Directors have access to the advice and services of the Company Secretary for the ongoing discharge of their duties and responsibilities.

The Company Secretary assists the Chairman in preparing the agenda for the Board meetings, taking into account matters proposed by the Directors and ensures that all applicable rules and regulations regarding the Board meetings are followed. Minutes of meetings of the Board and Board committees are taken and kept by the Company Secretary and are open for inspection by Directors.

During 2016, the Company Secretary undertook no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may send a letter to:

Company Secretary	
Address:	Far East Global Group Limited 16th Floor, Eight Commercial Tower 8 Sun Yip Street Chai Wan Hong Kong

The Company maintains procedures for shareholders to propose a person for election as a Director. The details of these procedures are available on the Company's website.

Should shareholders wish to call an extraordinary general meeting, it must be convened according to the Company's Articles of Association, which state as follows:

- Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company can, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.
- Such meeting shall be held within two (2) months after the deposit of such requisition.
- If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CORPORATE GOVERNANCE REPORT

RELATIONS WITH SHAREHOLDERS AND INVESTORS

The Board attaches great importance to maintaining good relationships with all shareholders and investors and ensures that shareholders and investors are kept informed of major Company developments.

The Board regards the Company's general meetings as an opportunity to communicate directly with investors and actively encourages participative dialogue with all the Company's shareholders. The chairmen of the Board committees attend the annual general meeting each year as well as other Directors and are available to answer questions from shareholders. To enhance the communication between the Company and the capital market, the management of the Company meets investors and analysts regularly and irregularly to present the latest development strategies and operation conditions to them in a timely manner. The Company will continue its effort to increase the investor relations service to shareholders and investors to enhance the transparency in 2017.

The website www.fareastglobal.com is an important source of information on the Group, including press releases, shareholder documentation, annual, half-year and quarterly results and the terms of reference of the principal Board committees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Reporting Scope and Reference Standards

This report only focuses on reporting the environmental and social policies, measures, and performance of the curtain wall related to engineering business of Far East Global Group Limited ("Far East Global") in Hong Kong, Mainland China, and North America during the period between January 1 and December 31, 2016 ("Reporting Period"), involving Far East Global and the production facilities at five locations, which are Shenzhen, Shanghai, Quebec, Miami and Buffalo (collectively called "the Group"). The reason of the above businesses were chosen to be reported is because of the curtain wall related to engineering business is the core business of the Group.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (ESG Reporting Guide) issued by Hong Kong Exchanges and Clearing Limited (HKEx). The corporate governance details of the Group can be found in Corporate Governance Report of our annual report.

STAKEHOLDER ENGAGEMENT

The success of the Group relies on the good relationship with our stakeholders. The Group has always been maintaining good and constructive communication with various stakeholders, including shareholders, institutional investors, employees, clients, architects, consultants, and suppliers/manufacturers via different channels. By doing so we can comprehensively understand, positively respond and implement their expectations and requirements in our daily business operation which can promoting the sustainable development of the Group.

Stakeholders	Communication Approaches
Shareholders and institutional investors	• Communicate with the stockholders or the stockholders' representatives of the Group in person at the stockholders' meeting and learn about their opinions towards development of the Group • Communicate with analysts, investors and fund managers on a regular basis • Announcements/circulars, annual reports as well as financial statements can all be obtained from our website. In this way, we can improve the transparency of the Group and strengthen the effectiveness of information disclosure
Employees	• Arrange trainings for new recruits • Hold workshops and internal trainings • Organise employee engagement activities, such as "Employee's well-being Day", "Far East Badminton Championship", "Company Day", etc. in order to increase employee's communication and the sense of belonging • Build diverse teams to improve communication among employees from different regions • Establish internal publication "Far East Bulletin", a proprietary communication channel between the group and our employees as well as a platform to present the good images of our employees
Clients	• Set up "After-sales Maintenance Department" to provide clients with the professional after-sales services • Visit clients on a regular basis to learn about their opinions towards the products and services of the group
Suppliers/Manufacturers	• Strengthen our communication regularly by means of inquiry meetings, inquiry emails, etc • Conduct supplier's performance evaluation annually • Hold "Annual Suppliers and Strategic Partners Conference"

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PRODUCT QUALITY

The group provides the one-stop service curtain wall solution from bidding, designing, material procurement, manufacturing and assembling, logistic transportation, to on-site installation, and even to post maintenance in order to ensure the effective project implementation. Besides that, the Group also has a strict quality control system. With all of the above qualifications, the Group becomes a curtain wall supplier with good reputation. During the reporting period, there were neither product recalls due to quality issues nor complains regarding our products and services.

Suppliers/Manufacturers

In order to maintain the high quality of our products, the Group has established the supplier/manufacturer management procedures to strictly inspect, select and evaluate suppliers/manufactures. For example, the procedures require that suppliers/manufacturers guarantee the materials supply related to project schedule, quality, safety and environmental protection meet the demands of the owners and other relevant parties; the ISO certified suppliers/manufactures have the priority to be selected; the suppliers approved by the procurement supervisor are allowed for temporary cooperation and can apply to become "approved suppliers" with satisfactory performance; the suppliers who haven't been selected in the past three years need to be re-evaluated; assess the performance of the suppliers whom we have contact with every year based on the evaluation criteria.

Clients

Providing high quality services and products to our clients, and realizing the concepts of rich imagination for them are our missions. Production facilities in Shanghai and Shenzhen are both ISO 9001 certified. Production facilities in Buffalo and Quebec are managed based on ISO 9001 certification standards and ASTM (American Society for Testing and Materials) respectively, even though the above two production facilities are not required to be officially certified. For the purpose of quality and technology assurance as well as the internal efficiency and client satisfaction improvement, all employees are required to accordance with the guidance documents regarding the workflow and the scope of work in the quality management system.

To further improve the quality of our products and services, production facilities in Shanghai has set up the "After-Sales Maintenance Department" to provide professional after-sales service and arrange return visits for our clients.

PRODUCTION SAFETY

The Group aims for the high standard safety performance and hopes to achieve zero accidents through the comprehensive management measures.

Establish and Implement a Perfect Occupational Health and Safety Policy

The production facilities in Shenzhen and Shanghai develop the safety production management system, implement the safety production responsibility system, establish the safety production committee and the safety management committee, and come up with the emergency response plans.

As to production facilities in North America, the one in Miami corresponds to the Group's unified management requirements, has established professional safety management teams. It also develops safety management teams and has set up emergency response teams for safety accident management and emergency response plans. The production facilities in Buffalo and Quebec have also established a safety production committee for the establishment and implementation of the follow-up safety production system.

Investment in Equipments

To provide a comfortable and safe working environment, the production facilities in Shenzhen and Shanghai correspond to the Safety Production Standardization Regulation, arrange production specifications and import their essential equipment from overseas to ensure safety and efficiency. In the meanwhile, the production facilities set up the mechanical equipment maintenance system, come up with the mechanical maintenance plan and implement the plan on schedule to ensure the safety of machinery maintains in high standard.

The production facilities in Miami and Buffalo conduct timely equipment maintenance according to the government regulations. The system maintenance of Buffalo production facility is being established and implemented. For example, the mechanical specification inspection system has been preliminarily completed.

The Group provides employees with personal protective equipment.

Comprehensive Safety Training

The Group provides employees with applicable occupational health and safety training so they can identify high-risk areas in the workplaces and reinforce their awareness of safety and health. The production facilities in Shanghai, Shenzhen and Buffalo perform drills on a regular basis to further improve the emergency response capabilities of the employees.

Rigorous Supervision

The registered occupational safety and health officer will visit the construction sites regularly to supervise the occupational safety and health situation. The scope of supervision includes checking if employees and subcontractors comply with the safety regulations of the Group when executing construction works in Hong Kong as well as evaluating the safety performance of subcontractors to ensure they are hired by the Group and able to comply with our safety and health policies. In the meanwhile, the Group also strengthens safety production routine inspection and releases a safety report monthly to remind the production lines that "Safety Comes First".

The production facilities in Miami, Quebec, Buffalo, Shenzhen and Shanghai all evaluate the sources of hazards existing in the factories, create marks for the hazards, and explain the safety practice knowledge to the employees clearly to reinforce their awareness towards the danger of the hazards to avoid accidents.

Continuous Improvement

The Group encourages employees to report any breach of the safety regulations so the appropriate actions can be taken promptly.

Safety Management Certificate

The production facility in Shanghai has been OHSAS 18001 certified for six consecutive years. It is reviewed and examined by a third-party yearly since it obtained the certificate in December 2010.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CARING FOR THE ENVIRONMENT

The core business of the Group is the curtain wall related engineering business. The main emissions are greenhouse gases and solid waste generated in the curtain wall manufacturing process. The Group always ensure the compliance with the local environmental laws and regulations and any other relevant standards. There were no breaches of environmental laws nor regulations happening during the reporting period. In order to further reduce the emissions mentioned above and utilize resources more efficiently to reduce the impact of the Group's activities on the environment, the Group has established diverse environmental policies and measures, covering material procurement, product manufacturing procedures as well as office daily management.

Green Office

As for the offices, the Group has announced 《the Far East Global Group Green Office Environmental Protection Initiatives》 and requires all employees from the subsidiary companies adhere to the initiatives to reduce the resources utilized in office operation. Below are parts of the environmental protection measures implemented by the Group:

Environmental Protection Policies	Environmental Protection Measures
Reducing Electricity Consumption	• Turn off unnecessary illumination • Shut down computers and printers to reduce their standby time • Choose energy-efficient products preferentially
Water Conservation	• If there is a leaking water tap or pipe, please report and repair it in time • Encourage multiple uses of water and increase water use efficiency • Remind employees and visitors of water-saving in daily operation
Reducing Paper Consumption	• Go paperless • Encourage using double-sided paper and paper recycling
Reducing Gas Consumption	• Strengthen the management of business vehicles and improve their utilization rate • Choose public transportation for non-emergency business events
Waste Reduction	• Consider second-hand furniture for office furniture procurement • Recycling
Emission Reduction	• Substitute travelling, use phone or video conferences to reduce the carbon emission from traffic • Set up non-smoking areas. Prohibit indoor smoking to improve the air quality in office

Green Production

As for product manufacturing, the Group considers the factor of environmental protection in product design, material procurement and various manufacturing procedures, so as to reduce the significant impact of the Group's activities on the environment and the natural resources, as well as set up the regulatory system to ensure the effective implementation of the related measures. For example:

Procedure	Measures
Product Design	Reduce the waste generated in manufacturing process • Optimize product design to increase the material utilization rate and reduce waste at the source • Curtain wall products are highly recyclable as the materials used are mainly aluminium alloy, stainless steel and low carbon metallic material • Prefabricated unitized curtain wall products are made in factory to reduce construction waste Low carbon and energy efficient design • Open windows to improve ventilation to reduce the use of air conditioners • Use low thermal reflective glass to prevent the UV spectrum from entering the room and function as a thermal insulation layer to keep the indoor warm in winter • Coordinate with architectural design features, and allow more natural light indoor
Material Procurement	Preferentially choose environmental friendly materials • Try to choose coated glass and non-oxidized aluminium material to reduce light pollution and water pollution • Adopt recyclable packing materials, such as iron shelves, iron cages, etc • Preferentially use the suppliers who recycle surplus materials • Preferentially choose the products or services provided by green/environmental organisations • Use green environmental materials or green certified materials for decoration of production facilities Try to reduce carbon emission in transportation and delivery • Follow the principle of choosing the material suppliers who are close to the factories • Preferentially consider local suppliers for hardware purchasing on premise of our usage requirements being satisfied • Use centralized procurement to shorten the number of transporting times and transporting distance • Encourage forwarding agent to use environmental friendly vehicles for transportation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Procedure	Measures
Manufacturing Procedures	Reduce waste at source • Provide staff training regarding low carbon production on a regular basis (such as material cutting, processing, injecting weather sealant and structural sealant, etc.) to increase the utilization rate and reduce waste generation • Provide warehouse, quality testing and structural glue glass-lifting staff with the training of glass operation, and set up the "Penalty Rules" to reduce glass-breaking rate Greenhouse gas emission, wastewater discharge and waste management • Set up "the energy saving management system" to reduce wastewater generation • Sign an agreement regarding sewage treatment with the local qualified institutions to incorporate the unavoidable wastewater from the production facilities into the municipal sewage pipe • Try to use surplus materials and scrap metal materials to produce shelves and other tools used in production facilities • Cooperate with companies which provide corresponding recycling service to handle unavoidable small amount of waste glass, waste rubber, waste aluminium and other waste materials • Use optimized aluminium material to increase the aluminium utilization rate and reduce aluminium waste production • Recycle packing materials • Deliver the unrecyclable waste in time to the local environmental enterprises for handling • Sort and handle the construction waste in accordance with government regulations Indoor Air Quality Management • Install exhaust fans to improve the air quality in airtight work cells • Smoking is exclusively allowed in a separate smoking room and prohibited in other areas. Set up smoking regulations to improve the air quality of each area

Environmental Awareness

To create the atmosphere of caring environment and attaching great importance to environmental protection, the production facility in Miami posts and hangs obvious signs relate to environmental protection in their communication records for internal and external communication use. This helps promoting environmental awareness and reduction of hazards waste discharge among employees and stakeholders. The production facility in Shanghai not only posts environmental protection reminders inside the facility, such as environmental practices and environmental importance, but also promotes the importance of "low carbon production and low carbon shipment" in material procurement, manufacturing process, office management, etc.

CARING FOR EMPLOYEES

Human resource is the supporting power of company's development. Protecting our employees' safety and health as well as job security and income can contribute to the consistent and stable development of the Group.

Equal Opportunities and Benefits

In order to establish and maintain excellent work teams, the Group has established a completed human resource management system to ensure the equality and equity in staff recruiting, promotion, compensations and benefits, working hours, etc. For staff recruiting and promotion, the Group only evaluates candidates/employees based on their working performance, expertise, and capabilities regardless of their genders, ages and ethnic groups. During the reporting period, the Group ensures the compliance with the local related labour laws and regulations. In the meantime, no child labour, forced labour or any other related violations are found.

The Group purchases medical insurance for the employees working in both offices and production facilities. The subsidiaries in Mainland China provide annual physical examination for employees to let their employees aware of their health conditions.

Development and Training

The Group always considers our employees as valuable assets. We insist on the people-oriented principle and ensure the consistent and increasing investment in human resource. Strengthening staff education and training is an important task to improve our staff quality and teamwork capability. Enhance our employees' knowledge and skills to make them qualified for their current positions as well as more important positions in the future as the Group develops.

The Group has a comprehensive training program which covers the employees at all levels and with different positions. The horizontal classifications are "basic level courses", "professional level courses", "skill courses" and "external course subsidy", total 4 categories. Based on the job titles of the trainees, the vertical classifications are "basic level and new recruits level", "middle level" and "department head level and above", total 3 categories. Emphasize knowledge developing and sharing internally, and pursue efforts in the training of employees at all levels, such as emphasizing enterprise culture for the new recruits; investing resources for the current employees to improve their professional skills and management skills.

In addition, the Group provides external course subsidy for qualified employees to encourage them for self-development.

The Group will continue to build diverse teams to promote local wisdom and international experience to the maximum extent. Provide our employees with the opportunities of communication and job rotation and facilitate the flow of talent on a global scale.

Harmonious Working Environment

Aside from employee occupational safety, the Group also attaches great importance on the employees' physical and mental health. We hold various sports events and interest-oriented classes to help our employees balance work and life as well as help to strengthen their sense of belonging and facilitate communication. For example, in 2016, the Group held/participated in various events, including "Elegant Flower Workshop", "Employee Well-Being Day", "Far East Badminton Championship" and "Air Plant Terrarium Workshop", etc.

As to employee vacation policies, the Group offers paid marriage leave, maternity leave, paternity leave, compassionate leave, and exam holiday, and also provides marriage gifts, childbirth gifts, condolence compassion and birthday gifts to staff to show our care.

As for employee health welfare policies, subsidiaries in Mainland China and North America pay medical insurance for their employees in accordance of related laws. The Group purchases medical insurance and life insurance for employees in Hong Kong and Macau, including some qualified family members of them.

Anti-Corruption in our Corporate Culture

The Group has strict requirements regarding employee ethics and integrity. The Group has both "Company Ethics and Discipline Codes" and "An Open Letter to Far East Contractors and Suppliers" which clarify the ethics requirements regarding honesty, intellectual property, relationship with suppliers, gift receiving, hospitality reception, outside part-time jobs as well as conflicts of interests. Any breach of the regulations shall result in departmental discipline action and maybe transferred to Independent Commission Against Corruption (ICAC) for further investigation. Administrative public relation department is responsible for management and supervision to ensure all employees strictly comply with the related regulations. No corruption cases are found during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CARING COMMUNITIES

Since 2013, Far East Global has been awarded the honour of "Caring Company" annually for four consecutive years. As a member of "Caring Company"; while maintaining the market profitability, the Group hopes to encourage employees to participate in various community charity events, cultures, and environmental protection campaigns to care for society. The Group social responsibilities emphasize three core aspects: children's education, history and culture conservation as well as environmental protection.

Far East Global has participated in or undertaken the events jointly held by China Overseas Holdings Ltd. (China Overseas) and Treats (a charitable organisation focuses on children social integration in Hong Kong) for three consecutive years. The Group hopes to create more equal participation opportunities for children and promotes the idea of being equal and integrated. In addition, the Group hopes that participating in the cultural and environmental events could not only facilitate the communication among colleagues but also raise staff awareness of green environmental and historic legacy. Jointly fulfil the Group's social responsibilities with our staff.

The community charity events held or participated in by the Group during the reporting periods are as follows:

- On 10 January 2016, Far East Global participated in the Community Chest's large fund-raising event — "2015/2016 Hong Kong & Kowloon Walk" for four consecutive years for fundraising purposes. The funds raised will be assisted social welfare agencies in providing "family and child welfare services" to assist the families in need.

- On 28 May 2016, the staff participating in the "Children's Dream, Our Thoughts" integrated space studio volunteer recruitment undertaken by Far East Global and co-organized by China Overseas and Treats dedicate the service time of more than 100 hours. Children with different talents and backgrounds play as space designer, their creativity potential get inspired by the free space with no right or wrong. With the love and respect towards other people, they create their integrated environment from inside their hearts. The goal of this event is to improve the participants' communication skills through group collaboration and interactivity as well as their self-fulfilment and self-confidence in the process of art creation. In the meanwhile, the event can also improve the understanding among people with different talents and backgrounds, change stereotypes, and improve the degree of acceptance of the society.

- On 5 November 2016, Far East Global and Treats co-organized "Integrated Artists (Painting Production)". This event provided an equal platform for all participants and promoted the integrated concept. Among the participants, there were normal students, students with mild intellectual disability as well as volunteers. By means of art creation, they could freely express their ideas and feelings. Their creativity potential got inspired to create the unique painting so as to improve their self-fulfilment and self-confidence. The participants collaborated with each other in this event. By doing so, they understand that people with different talents and backgrounds could help and admire each other and practice integration.

The community charity events held or participated in by the Group during the reporting period are as follows:

On 12 November 2016, the Group participated "The Ping Shan Poon Choi Group Biking and Walking Eco-Tour" co-organized by Staff Recreation Association of COHL and China Overseas Sorority. This event is designed to encourage colleagues close to the nature with family in spare time and enhance the awareness of heritage conservation in Hong Kong.

On 26 November 2016, a group of employees attended the "Sai Kung Yim Tin Tsai Half-Day Eco-Tour" held by China State Construction International Holdings Ltd. Though this guided tour, colleagues learnt more about history, civilization, culture and eco-system of Yim Tin Tsai which help improve the ideas of eco-system and culture conservation.

On 14 December 2016, Far East Global held an Air Plant Terrarium Workshop. By designing and producing their own eco-landscape bottles, employees develop green environmental awareness through this workshop.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016 MAJOR REWARDS AND RECOGNITIONS

Rewards/Recognitions	Issuing institution	Award Date	Award Unit
Environmental Protection and sustainable development			
Participate in Green Office Award (GOALS)	World Green Organisation	1 November 2016	Far East Global Group Ltd.
The Better World Company	Junior Chamber International Hong Kong	1 November 2016	Far East Global Group Ltd.
Quality and Client Service			
Excellent Partners	China Construction Third Engineering Bureau Co. Ltd	January 2016	Netfortune (Shanghai) Aluminium Works Co., Ltd
Social Responsibility			
"Caring Company" 2015–2016	Hong Kong Council of Social Service	1 March 2016	Far East Global Group Ltd.
The home of extraordinary workers	Shanghai Huangpu District Federation of Trade Unions	May 2016	Netfortune (Shanghai) Aluminium Works Co., Ltd

HONG KONG STOCK EXCHANGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

ESG Reporting Guide Index Subject Areas/Aspects/General Disclosure		ESG Report Sections
A. Environment	Aspect A1: Emissions	Caring for the Environment
	Aspect A2: Resource Usage	Caring for the Environment
	Aspect A3: Environment and Natural Resources	Caring for the Environment
B. Society — Employment and Labour Conventions	Aspect B1: Employment	Caring for the Employees
	Aspect B2: Health and Safety	Production Safety Caring for the Employees
	Aspect B3: Development and Training	Caring for the Employees
	Aspect B4: Labour Standards	Caring for the Employees
B. Society — Operating Practices	Aspect B5: Supply Chain Management	Product Quality
	Aspect B6: Product Responsibility	Product Quality
	Aspect B7: Anti-Corruption	Caring for the Employees
B. Society — Communities	Aspect B8: Community Investment	Caring Communities

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and the provision of corporate management services. The activities of the Company's principal subsidiaries are shown in note 18 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 79 and 80 respectively.

An analysis of the Group's performance for the year by segments is set out in note 5 to the consolidated financial statements.

An interim dividend of HK0.8 cent per share was paid to shareholders on 5 October 2016. The Board recommends the declaration of a final dividend of HK0.8 cent per share payable on 10 July 2017 to shareholders whose names appear on the register of members of the Company on 29 June 2017. Together with the interim dividend of HK0.8 cent per share, this results in total dividends for the year of HK1.6 cents per share and represents a total distribution of HK$34,488,000.

BUSINESS REVIEW

A fair review of the Group's business, including the important events affecting the Group that have occurred since the end of 2016 and the likely future developments, is set out in the "Financial Highlights", "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report, and disclosures relating to the Group's environmental policies and performance, and relationships with major stakeholders can be found in the "Environmental, Social and Governance Report" section of this Annual Report.

Principal Risks and Uncertainties

Below are the principal risks and uncertainties facing the Group that could adversely impact the Group's business, financial condition and profitability. There may be other risks in addition to those disclosed below which are not known to the Group or which may currently be immaterial but turn out to be material in the future.

Risk	Description	Management Measures
Foreign Exchange	The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency where these sales or purchases are mainly denominated in United States dollar, Renminbi, Australian dollar, Canadian dollar, Pound Sterling and Macau Pataca.	The Group monitors foreign exchange exposure by closely reviewing the movement of the foreign currency rate and adapting natural hedge strategies. During the year ended 31 December 2016, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as at 31 December 2016.
Interest Rate	The Group's interest rate risk mainly related to variable rate borrowings.	The Group has established policies and procedures to the assessment, booking and monitoring such risk and will consider hedging significant interest rate fluctuation should the need arise.

REPORT OF THE DIRECTORS

Risk	Description	Management Measures
Market	The effects of national or market trends, political change or new developments in infrastructure expenditure may cause customers to postpone, reduce or change existing or future projects, which may impact the Group's strategy, business model, revenue or profitability in the short or medium term.	The Group's strategy to focus on the more resilient and stable infrastructure and property markets and geographies will help mitigate this risk. The effect of spending changes in any one market is mitigated by the Group's broad exposure to infrastructure and property markets across the globe and the continued need for infrastructure spending. It also mitigates the effects of such market conditions by continuing to adapt its business model. It is essential that the financial solvency and strength of counterparties is always considered before contracts are signed. During the life of a contract, such assessments are updated and reviewed whenever possible. The business also seeks to ensure that it is not over-reliant on any one counterparty.
Bidding	The Group's success depends on its ability to identify, price and execute the right volume and quality of bids to maintain a profitable, sustainable order book. This in turn requires that it has a competitive business model and overheads.	All bids are subject to rigorous estimating and tendering processes within the risk management framework. The Group has defined delegated authority levels for approving all tenders. Reviews are conducted following all tenders to ensure lessons are learnt and applied to future tenders.
Project Execution	The Group performs the construction projects with complex design, engineering and construction works. If it fails to deliver them on time, to customers' requirements, and in accordance with its own cost assumptions and reporting, the Group faces the risk of financial loss, claims and reputational damage.	Each business unit has defined operating procedures to address the risks inherent in project delivery. In addition, the revision of the Group risk management framework and increased controls aid identification and quantification of specific risks on projects and the mitigating actions required. This has been further reinforced through the implementation of common minimum standards in project and commercial management.
Supply Chain	The Group is heavily reliant on its supply chain partners for successful operational delivery, which means it is also exposed to a variety of risks in the supply chain, including financial, technical, quality, safety and ethics.	The Group aims to develop long-term relationships with key subcontractors, working closely with them to understand their operations. It develops contingency plans to address subcontractor failure, and also obtains project retentions, bonds and/or letters of credit from subcontractors, where appropriate to mitigate the impact of any insolvency. The Group aims to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share its values. It also aims to avoid becoming over-reliant on any one supplier or subcontractor.

Risk	Description	Management Measures
People	Inability to recruit and retain the best management and employees who have the appropriate competencies and also share Company values and behaviours may hamper the Group's growth prospects.	All potential recruits for key roles in the organisation are measured against a competency and leadership system. The Group's succession planning process to identify and develop high-potential personnel is reviewed regularly within the organisation and by the Board of Directors. The Group has appropriate remuneration and incentive packages to help it attract and retain key employees.
Business Conduct	The Group operates in various markets that present business conduct-related risks involving fraud, bribery or corruption, whether by its own staff or via third parties such as partners or subcontractors. Those risks are higher in some countries and sectors. Overall the construction industry has a higher risk profile than other industries.	The Group has a range of risk assessment, due diligence and procurement controls that are designed to identify and minimise such risks.
Legal	The Group operates in different markets and its businesses are subject to a variety of complex, demanding and evolving legal, tax and regulatory requirements.	The Group monitors and responds to legal and regulatory requirements by qualified internal personnel and external lawyers or counsel. The Group has established comprehensive policies, guidelines, and manuals with proper training courses provided to its employees.

Compliance with Relevant Laws and Regulations

The construction industry is regulated by the local authorities in which the business units operate. In general, contractors must comply with certain requirements mandated by the applicable laws and regulations and may be required to obtain permits or licenses in order to carry on certain businesses such as general contracting, facade contracting, design and manufacturing in certain countries. Apart from the specific laws and regulations, the Group is also subject to the general laws and regulations governing the environment, employment, anti-competition and anti-corruption regardless of its nature of business.

In addition, the Company, as a listed company, is subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Codes on Takeovers and Mergers and Share Buy-backs and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Group seeks to ensure compliance with all relevant laws and regulations through various measures such as internal controls and approval procedures, trainings and oversight of various business units with the designated resources at different levels of the Group.

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects throughout the year ended 31 December 2016.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 140.

PROPERTY, PLANT AND EQUIPMENT

Particulars of the movements of property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

RESERVES

Distributable reserves of the Company as at 31 December 2016 amounted to HK$935,424,000 (2015: HK$961,738,000).

Movements in the reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity on page 83 respectively.

DIRECTORS

The Directors during the year and up to the date of this Annual Report are:

Chairman and Non-executive Director

Mr. Zhou Yong

Executive Directors

Mr. Zhu Yijian *(Vice Chairman and Chief Executive Officer)*
Mr. Luo Haichuan
Mr. Wang Hai
Mr. Chan Sim Wang
Mr. Qin Jidong (resigned with effect from the conclusion of the Board meeting held on 16 March 2017)

Non-executive Director

Mr. Huang Jiang (appointed with effect from the conclusion of the Board meeting held on 16 March 2017)

Independent Non-executive Directors

Mr. Zhou Jinsong
Mr. Hong Winn
Ms. Kwong Sum Yee Anna

Notes:

Pursuant to article 84(1) of the Articles of Association of the Company, Mr. Zhu Yijian, Mr. Chan Sim Wang and Mr. Hong Winn will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Pursuant to article 83(3) of the Articles of Association of the Company, Mr. Huang Jiang, who was appointed by the Board after the 2016 annual general meeting shall hold office until the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The change in emoluments of Directors is set out in note 10 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company received an annual confirmation from each of the Independent Non-executive Directors of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considered each of them to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company discloses that during the year, Messrs. Zhou Yong, Zhu Yijian, Luo Haichuan, Wang Hai, Chan Sim Wang and Qin Jidong held directorships and/or senior management positions in the Company's holding companies and/or their subsidiaries. These companies are engaged in construction, property development and related business.

The Board is independent of the boards of directors of the Company's holding companies and their subsidiaries. With the presence of appropriate portion of Independent Non-executive Directors in the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of its holding group.

DIRECTORS' INDEMNITY

The Articles of Association of the Company provides that every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by him by reason of any act done, concurred in or omitted in or about the execution of his duty as a Director provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to the Director. A directors and officers insurance policy is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as adopted by the Company (the "Model Code") were as follows:

REPORT OF THE DIRECTORS

(a) Interests and short positions in the shares, underlying shares and debentures of the Company

Long positions in the shares of the Company

Name of Director	Capacity	Nature of Interests	Number of ordinary shares held	% of shares in issue (Note)
Zhu Yijian	Beneficial owner	Personal interest	1,000,000	0.046
Chan Sim Wang	Beneficial owner	Personal interest	50,000	0.002
Qin Jidong	Beneficial owner	Personal interest	900,000	0.042

Note: The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2016 (i.e. 2,155,545,000 shares).

(b) Interests and short positions in the shares, underlying shares and debentures of the associated corporations of the Company

Long positions in the shares of the associated corporations of the Company

As at 31 December 2016, Mr. Zhou Yong had personal interests in 3,233,027 ordinary shares, representing approximately 0.072% of the then issued shares, in China State Construction International Holdings Limited ("CSCIHL") and 255,000 A-shares, representing approximately 0.001% of the then issued voting shares, in China State Construction Engineering Corporation Limited ("CSCECL"), held in his capacity as beneficial owner; Mr. Zhu Yijian had interests in 2,256,211 ordinary shares, representing approximately 0.050% of the then issued shares, in CSCIHL (comprising personal interests in 1,322,211 ordinary shares held by him as beneficial owner and family interests in 934,000 ordinary shares held by his spouse), and personal interests in 210,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Luo Haichuan had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Wang Hai had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner; Mr. Chan Sim Wang had personal interests in 28,800 ordinary shares, representing approximately 0.001% of the then issued shares, in CSCIHL held in his capacity as beneficial owner; and Mr. Qin Jidong had personal interests in 150,000 A-shares, representing approximately 0.001% of the then issued voting shares, in CSCECL held in his capacity as beneficial owner. The Company was informed that all the interests in A-shares in CSCECL held by Directors were granted to them by CSCECL pursuant to its share award scheme (details are set out in note 31 to the consolidated financial statements).

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. Nor any of the Directors or chief executive of the Company (including their spouses and children under the age of 18), during the year ended 31 December 2016, held any interests in, or was granted any right to subscribe for, the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") on 10 March 2010 and unless otherwise cancelled or amended, is valid and effective for 10 years from 30 March 2010. A summary of the Scheme is as follows:

(a) The purpose of the Scheme is to provide incentives or rewards to the eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group.

(b) Share options may be granted to any director, employee, supplier and customer of the Group or any entity in which the Group holds an equity interest ("Invested Entity") and any consultant, adviser, manager, officer or entity that provides research, development and other technological support to the Group or any Invested Entity.

(c) The total number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme and any other share option schemes of the Group shall not exceed 10% of the shares of the Company in issue immediately following the completion of the Global Offering of the Company (as defined in the Prospectus issued by the Company dated 17 March 2010) unless the Company obtains a fresh approval from the shareholders.

(d) As at the date of this Annual Report, the total number of shares which may be issued under the Scheme is 38,689,000 shares i.e. 1.79% of the Company's shares in issue as at that date.

(e) The maximum entitlement for any participant (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) under the Scheme is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the proposed grant does not exceed 1% of the shares of the Company for the time being in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(f) The period within which an option may be exercised under the Scheme will be determined by the Board at its absolute discretion provided that such period shall not be more than ten years from the date of grant of the option.

(g) The exercise price of the share options shall be determined by the Board, at its absolute discretion, but in any case, shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

(h) Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant.

No share options were granted to or exercised by any Directors or chief executive of the Company or employees of the Group or other participants, nor were cancelled, or lapsed during the year ended 31 December 2016.

As at 1 January 2016, 31 December 2016 and the date of this Annual Report, the Company had no share options outstanding under the Scheme.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year ended 31 December 2016 was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Except for the connected transactions set out on pages 67 to 72 and the related party transactions set out in note 33 to the consolidated financial statements, there were no transactions, arrangements or contracts of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries, was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to any Directors or chief executive of the Company, as at 31 December 2016, other than the interests of the Directors and chief executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of ordinary shares held	Total	% of shares in issue[(1)]
Add Treasure Holdings Limited ("Add Treasure")	Beneficial owner	1,537,983,279	1,537,983,279	71.35
China State Construction International Holdings Limited ("CSCIHL")[(2)]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
China Overseas Holdings Limited ("COHL")[(3)]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
中國建築股份有限公司 (China State Construction Engineering Corporation Limited) ("CSCECL")[(3)]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06
China State Construction Engineering Corporation ("CSCEC")[(3)]	Interest in controlled corporation	1,596,403,279	1,596,403,279	74.06

Notes:

1. The percentage is based on the total number of ordinary shares of the Company in issue as at 31 December 2016 (i.e. 2,155,545,000 shares).

2. Add Treasure is a wholly-owned subsidiary of CSCIHL which, by virtue of the SFO, is taken to be interested in the same 1,537,983,279 shares held by Add Treasure and the 58,420,000 shares of the Company held by another wholly-owned subsidiary of CSCIHL.

3. CSCIHL is owned as to approximately 62.56% by COHL, which in turn, is a wholly-owned subsidiary of CSCECL. CSCECL is, in turn, a subsidiary of CSCEC. By virtue of the SFO, each of COHL, CSCECL and CSCEC is deemed to be interested in the same 1,596,403,279 shares held indirectly by CSCIHL.

Save as disclosed above, as at 31 December 2016, no other person (other than the Directors or chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CONNECTED TRANSACTIONS

The connected and continuing connected transactions required to be disclosed in accordance with Chapter 14A of the Listing Rules, are disclosed on pages 67 to 72.

EQUITY-LINKED AGREEMENT

Other than the Scheme as disclosed in this report, there were no equity-linked agreements entered into by the Company during the year or subsisted at the end of the year.

RETIREMENT BENEFIT SCHEME

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The Group's employees outside Hong Kong are primarily covered by the respective defined contribution schemes in accordance with local legislation and practices. During the year, the Group made contribution to these schemes amounting to approximately HK$12,292,000. No forfeited contribution under these schemes are available to reduce the contribution payable in future years.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PUBLIC FLOAT

As at the date of this Annual Report, based on publicly available information and within the Directors' knowledge, more than 25 per cent of the Company's issued share capital was held by the public.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In 2016, the five largest customers of the Group accounted for approximately 56.8% of the Group's revenue and the revenue from the largest customer included therein accounted for approximately 26.2%. The first and fourth largest customers are subsidiaries of the controlling shareholder of the Company. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

Other than disclosed above, at no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have an interest in any of the Group's five largest customers.

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

During the year, neither the Company nor any of its subsidiaries has made any purchase, sale or redemption of any of the Company's listed securities.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment at the 2017 annual general meeting.

On behalf of the Board
FAR EAST GLOBAL GROUP LIMITED
Zhou Yong
Chairman and Non-executive Director

Hong Kong, 16 March 2017

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS UNDER THE LISTING RULES

1. FE-CSCECL Sub-construction Engagement Agreement

On 28 October 2014, the Company entered into a new agreement ("FE-CSCECL Sub-construction Engagement Agreement") with China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company) to replace the previous agreement entered into between the parties on 11 June 2012. Under the FE-CSCECL Sub-construction Engagement Agreement, the Group may continue to act as subcontractor of CSCECL and its subsidiaries (the "CSCECL Group") for provision of contracting service, supply, project consultancy service and project management service in relation to exterior facade works ("Exterior Facade Works") to the construction works of the CSCECL Group for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the CSCECL Group to the Group under the FE-CSCECL Sub-construction Engagement Agreement for each year shall not exceed HK$800 million (i.e. the CSCECL Works Cap).

As a general principle, the prices and terms of the contracts with respect to the Exterior Facade Works shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those provided to the independent third party customers.

The Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSCECL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender and such procedure applies to tenders submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from subcontractors for the Group's previous projects and peripheral operation. The Group will also review and compare the prices of previous tenders submitted to both connected persons and independent third parties to ensure that the price of the tender to be submitted is not more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as subcontractor to the CSCECL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Cap) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

The total value of the contracts awarded to the Group under the FE-CSCECL Sub-construction Engagement Agreement during the year ended 31 December 2016 was HK$529,533,326.

CONNECTED TRANSACTIONS

2. FE-CSC Sub-construction Engagement Agreement

On 28 October 2014, the Company entered into a new agreement ("FE-CSC Sub-construction Engagement Agreement") with China State Construction International Holdings Limited ("CSCIHL", an intermediate holding company of the Company) to replace the previous agreement entered into between the parties on 11 June 2012. Under the FE-CSC Sub-construction Engagement Agreement, the Group may continue to act as subcontractor of CSCIHL and its subsidiaries (the "CSCIHL Group") for provision of contracting and engineering works, project consultancy service and project management service to the construction works of the CSCIHL Group ("CSC Works Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the CSCIHL Group to the Group under the FE-CSC Sub-construction Engagement Agreement for each year shall not exceed HK$1,200 million (i.e. the CSC Works Cap).

As a general principle, the prices and terms of the contracts with respect to the CSC Works Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those provided to the independent third party customers.

In respect of the contracting and engineering works, the Group will normally need to go through a tender or similar process before being selected and appointed as subcontractor of the CSCIHL Group. The Group has a standard and systematic tender submission procedure to determine the prices and terms of a tender and such procedure applies to tenders submitted to both connected persons and independent third parties. In preparing and assessing a tender, the Group will consider the technical requirements, quantity specifications, expected completion time, customer's expectations and possible risks associated with the project. The Group will then perform site inspection, formulate a tentative construction program and conduct quantitative costs analysis and risk assessment. In determining the tender price, the Group will review the costs information maintained in its in-house database for material supplies and prices from subcontractors for the Group's previous projects and peripheral operation. The Group will also review and compare the prices of previous tenders submitted to both connected persons and independent third parties to ensure that the price of the tender to be submitted is not more favourable than those submitted to independent third parties.

Where the Group submits the tender directly to the ultimate employer and is nominated by the ultimate employer as subcontractor to the CSCIHL Group, consideration to the Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

In respect of the project consultancy service and project management service, the Group is typically engaged through direct appointment by the CSCIHL Group. The price and terms of each service provided to the CSCIHL Group shall be determined on a fair basis and on normal commercial terms based on the scale, degree of difficulty of the project, geographical location and duration of the project, which shall also be in line with the basis for engagements by independent third parties to provide services for projects of similar size and nature. The service fees shall be determined based on a percentage of not more than 20% of the value or remaining value of the projects. The quote to be offered will be reviewed and scrutinised by the Group's senior management with reference to the costs expected to be incurred and the fees previously offered to both connected persons and independent third parties to ensure that the price and terms are no more favourable than those offered to independent third parties.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSC Sub-construction Engagement Agreement (i.e. the CSC Works Cap) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSC Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

The total value of the contracts awarded to the Group under the FE-CSC Sub-construction Engagement Agreement during the year ended 31 December 2016 was HK$425,667,039.

3. FE-CSC Operational Services Agreement

On 28 October 2014, the Company entered into an agreement ("FE-CSC Operational Services Agreement") with CSCIHL to replace the three letter agreements entered into between the parties on 14 October 2014 in respect of the engagement of the CSCIHL Group by the Group for the provision of mechanical and electrical engineering works, leasing of machineries, provision of insurance services and supply of building materials to the Group.

3.1 Mechanical and Electrical Engineering Works Transactions

Under FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group as subcontractor of the Group for provision of mechanical and electrical engineering works to the Group's construction works ("Mechanical and Electrical Engineering Works Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total contract sum that may be awarded by the Group to the CSCIHL Group in respect of the Mechanical and Electrical Engineering Works Transactions for each year shall not exceed HK$450 million (i.e. the Mechanical and Electrical Engineering Works Cap).

As a general principle, the prices and terms of the contracts with respect to the Mechanical and Electrical Engineering Works Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those awarded to independent third party subcontractors.

Where the CSCIHL Group is nominated by the ultimate employer as subcontractor to the Group, consideration to the CSCIHL Group will be ascertained by an independent professional quantity surveyor appointed by the ultimate employer.

Where the Group has the right to select contractor(s), consideration to such contractor(s) will be ascertained under the supervision of an in-house qualified professional quantity surveyor. The Group will obtain at least three quotations from a list of pre-approved contractors (which is subject to periodic review and update by the management to ensure contractors' quality standards).

For projects which involve substantial contract amounts, the CSCIHL Group will participate in a tender with all bidders (including independent third parties in the market), the winning bid of which will be the one with the lowest tender amount in accordance with the Group's internal tender procedures on the condition that the bidder also satisfies all other essential requirements (including but not limited to relevant experience, capability, historical relationship and track records) as set out in the invitation to bid.

No contracts were awarded to the CSCIHL Group in respect of the Mechanical and Electrical Engineering Works Transactions during the year ended 31 December 2016.

CONNECTED TRANSACTIONS

3.2 Machineries Leasing Transactions

Under the FE-CSC Operational Services Agreement, the Group may lease machineries from the CSCIHL Group for the Group's construction works ("Machineries Leasing Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total rent payable in respect of the Machineries Leasing Transactions for each year shall not exceed HK$25 million (i.e. the Machineries Leasing Cap).

As a general principle, the prices and terms of the contracts with respect to the Machineries Leasing Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party vendors.

The Group will obtain at least three quotations from a list of pre-approved vendors (which is subject to periodic review and update by its management to ensure vendors' machinery and equipment are in good operational condition). For the selection of a vendor, the lowest quotation will be selected on the condition that the vendor also satisfies all other essential requirements (including but not limited to the specification and condition of the machinery and equipment).

The total rent in respect of the Machineries Leasing Transactions during the year ended 31 December 2016 was HK$2,106,496.

3.3 Insurance Services Transactions

Under the FE-CSC Operational Services Agreement, the Group may engage the CSCIHL Group to provide insurance services to the Group ("Insurance Services Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total fees payable in respect of the Insurance Services Transactions for each year shall not exceed HK$70 million (i.e. the Insurance Services Cap).

As a general principle, the prices and terms of the contracts with respect to the Insurance Services Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party insurers.

The Group will obtain at least three quotations from independent insurers (directly or indirectly through independent insurance brokers) and the CSCIHL Group. If the price and terms offered by the CSCIHL Group are equal to or better than those offered by independent insurers on the condition that the insurer also satisfies all other essential requirements (including but not limited to paying ability, financial strength, specialisation, historical relationship and record of claim refusal), the Group may probably accept the quotation of the CSCIHL Group.

The total fee in respect of the Insurance Services Transactions during the year ended 31 December 2016 was HK$5,804,309.

3.4 Supply of Building Materials Transactions

Under the FE-CSC Operational Services Agreement, the CSCIHL Group may supply building materials to the Group for the Group's construction works ("Supply of Building Materials Transactions") for a term of three years commencing from 1 January 2015 and ending on 31 December 2017 provided that the total sum payable in respect of the Supply of Building Materials Transactions for each year shall not exceed HK$150 million (i.e. the Supply of Building Materials Cap).

As a general principle, the prices and terms of the contracts with respect to the Supply of Building Materials Transactions shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than those paid to independent third party suppliers.

The Group will obtain at least three quotations from a list of pre-approved suppliers (which is subject to periodic review and update by its management to ensure a portfolio of best in class suppliers is available for use). For the selection of a supplier, the lowest quotation will be selected on the condition that the supplier also satisfies all other essential requirements (including but not limited to relevant experience, qualities and specifications of materials and track records).

The total sum in respect of the Supply of Building Materials Transactions during the year ended 31 December 2016 was HK$6,307,832.

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded for each year under the FE-CSC Operational Services Agreement (i.e. the Mechanical and Electrical Engineering Works Cap, the Machineries Leasing Cap, the Insurance Services Cap and the Supply of Building Materials Cap in aggregate) exceeded 5%, the transactions contemplated thereunder were subject to the annual review, reporting, announcement and independent shareholders' approval requirements. An announcement was published on 28 October 2014 and a circular dated 18 November 2014 was despatched to the shareholders of the Company. The FE-CSC Operational Services Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 12 December 2014.

4. Urban Planning Management and Consultation Service Agreement

On 30 December 2016, the Company entered into an urban planning management and consultation service agreement ("Urban Planning Management and Consultation Service Agreement") with 中建五局第三建設有限公司 (3rd Construction Co., Ltd of China Construction 5th Engineering Bureau) ("CSCEC 5th Bureau", a subsidiary of CSCECL) pursuant to which CSCEC 5th Bureau may engage any wholly-owned subsidiary designated by the Company ("Subsidiary") for provision of the project management and consultation service ("Urban Planning Management and Consultation Service") to CSCEC 5th Bureau in respect of the urban planning and operation projects located in the PRC undertaken by CSCEC 5th Bureau ("Urban Planning Projects") during the term commencing from 30 December 2016 and ending on 31 December 2018 provided that the total contract sum that may be awarded by CSCEC 5th Bureau to the Group under the Urban Planning Management and Consultation Service Agreement for the period from 30 December 2016 to 31 December 2016 and each of two financial years ending 31 December 2017 and 31 December 2018 shall not exceed HK$80 million, HK$100 million and HK$100 million, respectively (i.e. the CSCFB Service Cap).

As a general principle, the prices and terms of the contracts with respect to the Urban Planning Management and Consultation Service shall be determined in the ordinary course of business, on normal commercial terms, negotiated on arm's length basis and at prices and on terms no more favourable than the same or comparable management and consultation service arrangements provided to the independent third party customers.

The fees for the Urban Planning Management and Consultation Service will be based on the prevailing market prices and ranging from 2% to 5% of the contract sum of CSCEC 5th Bureau's head agreements with the ultimate employer for the Urban Planning Projects, which will be determined with reference to the scope and complexity of the Urban Planning Management and Consultation Service, the location, size and development status of the Urban Planning Projects and the costs and expenses for providing the Urban Planning Management and Consultation Service.

CONNECTED TRANSACTIONS

Since the applicable percentage ratios as defined in the Listing Rules in respect of the maximum total contract sum that may be awarded to the Group during the term of the Urban Planning Management and Consultation Service Agreement (i.e. the CSCFB Service Cap) were greater than 0.1% but less than 5%, the transactions contemplated thereunder were subject to the annual review, reporting and announcement requirements, but exempt from independent shareholders' approval requirement. An announcement was published on 30 December 2016.

On 31 December 2016, CSCEC 5th Bureau sought to engage Subsidiary for provision of the Urban Planning Management and Consultation Service with a service fee of approximately HK$60,000,000, which was expected to be on the terms of and in the manner provided for in the Urban Planning Management and Consultation Service Agreement. As definitive implementation agreement for such engagement is still being finalised, the transaction amount under the Urban Planning Management and Consultation Service Agreement in relation to such engagement in 2016 was nil.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 33 to the consolidated financial statements. Except for the transactions with fellow subsidiaries set out in paragraph (a)(i) of the note which were entered into by the Group pursuant to the continuing connected transactions described above, none of the related party transactions described therein constitute "connected transactions" or "continuing connected transactions" as defined in Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2016.

In respect of the financial year ended 31 December 2016, each of the continuing connected transactions mentioned above has been subject to annual review by the Independent Non-executive Directors pursuant to Rule 14A.55 of the Listing Rules who have concluded that each continuing connected transaction has been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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.

Based on the work performed, the auditor has confirmed in a letter to the Board that:

a. nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the auditor that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to the attention of the auditor that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to the attention of the auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual caps set by the Company.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the shareholders of Far East Global Group Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Far East Global Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 139, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from construction works
- Impairment of trade receivables and amounts due from customers for contract work
- Assessment of carrying amount of deferred tax assets and impairment of goodwill in Gamma USA, Inc. and Gamma Windows and Walls International, Inc.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition from construction works	
Refer to notes 2(m), 2(y)(i), 4(i), 4(ii) and 5 to the consolidated financial statements For the year ended 31 December 2016, the Group recognised revenue from construction works of HK$2,647 million. Most construction works take several years to complete and the scope of work may change during that time. Management estimate the revenue and budgeted costs at the commencement of the contracts and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimate of revenue, budgeted costs as well as the percentage of completion requires significant judgment and has a significant impact on the amount and timing of revenue recognised. For this reason, we identified revenue recognition as a key audit matter.	We understood, evaluated and validated on a sample basis the internal controls relating to the contract budgeting and management process. The measurement of revenue recognition requires management's estimate in respect of revenue, budgeted costs as well as the percentage of completion for construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and: • discussed with management and the respective project teams the progress of the projects; • assessed management's estimates of the impact to revenue and budgeted costs arising from scope changes made to the original contracts, claims, disputes and liquidation damages with reference to supporting documents including variation orders and correspondence among the Group, customers, subcontractors and suppliers; • tested on a sample basis the actual costs incurred on construction works during the reporting period; • recalculated the revised percentage of completion based on the latest budgeted final costs and the total actual costs incurred; and • recalculated the revenue recognised based on the revised percentage of completion. We consider the management's estimate used to determine the revenue and budgeted costs and the percentage of completion for construction works for the reporting period as well as the revenue recognised to be reasonable based on the evidence available.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of trade receivables and amounts due from customers for contract work	
Refer to notes 2(k)(i), 2(n), 4(v), 20 and 21 to the consolidated financial statements As at 31 December 2016, the Group recognised trade receivables of HK$372 million and amounts due from customers for contract work of HK$566 million, which were significant assets of the Group as of the year end, representing 51% of total assets. In assessing the recoverability of trade receivables and amounts due from customers for contract work, management exercised significant judgements to evaluate the collectability from individual customers after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, the probability that they will enter bankruptcy and ageing analysis. The judgements applied by management have a significant impact on the level of provision required for trade receivables and amounts due from customers for contract work.	We performed the following procedures to assess the recoverability of trade receivables and amounts due from customers for contract work: • understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the recoverability of receivables; • tested on a sample basis the ageing of trade receivables at year end; • tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers to identify if there was any indicators of impairment of trade receivables and amounts due from customers for contract work; • in respect of material trade receivables and amounts due from customers for contract work balances, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available information; • in respect of material trade receivables balances which are past due, additional procedures were performed to evaluate their historical progress payment records, assess whether the customers are experiencing financial difficulties, default or delinquency in interest or principal payments, and assess the probability that the customers will enter bankruptcy with reference to publicly available information; and • evaluated the level of provisions made by management for trade receivables and amounts due from customers for contract work. We consider the judgements applied by management in assessing the recoverability of and determining the level of provision for trade receivables and amounts due from customers for contract work to be reasonable based on the evidence available.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of the carrying amount of deferred tax assets and impairment of goodwill in Gamma USA, Inc. and Gamma Windows and Walls International, Inc.	
Refer to notes 2(h), 2(i), 2(t)(ii), 4(iv), 16 and 27 to the consolidated financial statements. As of 31 December 2016, the Group carried goodwill of HK$138 million from the acquisition of a 55% equity interest in Gamma North America, Inc. in 2011. The Group has also recognised deferred tax assets of HK$150 million, which is mainly attributable to the tax losses in Gamma USA, Inc. and Gamma Windows and Walls International, Inc. The recognition of deferred tax assets is based upon management judgement that it is probable that sufficient taxable profits will be available in the future to utilise available tax losses. Since both Gamma USA, Inc. and Gamma Windows and Walls International, Inc. incurred a loss for the financial year ended 31 December 2016, management performed an assessment on the carrying amount of deferred tax assets as well as an impairment assessment of the goodwill of Gamma North America, Inc. For the purpose of this impairment assessment, Gamma USA, Inc. and Gamma Windows and Walls International, Inc. were assessed as a single cash generating units ("CGU"). The recoverable amount of a CGU is determined based on the value-in-use calculation which requires the use of management estimates. Cash flow projections used in the value-in-use calculation were based on the financial budgets approved by management. The estimated discount rates, revenue growth rates and gross margins were specific to the risks related to the CGU. A change in the assumptions used for the impairment assessment may impact the carrying amount of the deferred tax assets and the impairment assessment of goodwill.	We performed the following procedures to assess the carrying amount of deferred tax assets and any impairment to goodwill of Gamma USA, Inc. and Gamma Windows and Walls International, Inc.: • we involved our internal valuation experts to assess the valuation methodology and compare the discount rates applied by management to other comparable companies in the same industry; • understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the review of the financial budgets; • assessed the key assumptions used by management in the assessment of the carrying amount of deferred tax assets and value-in-use calculations in the impairment assessment of goodwill, including revenue growth rates, gross margins and taxable profits by comparing them with economic and industry forecasts. We compared the current year actual results with the prior year forecasts to assess the reasonableness of financial budgets approved by management; • assessed management's sensitivity analysis of the impact on the impairment assessment of goodwill through reasonably possible deviations to the assumptions, such as changes in expected revenue growth rates and discount rates, applied by management; and • compared the market inputs used by management to available market information. We consider the assumptions applied by management in the assessment of the carrying amount of deferred tax assets and the impairment assessment of goodwill to be in line with our expectations based on the procedures performed above.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	5	**2,647,272**	2,194,896
Cost of sales	7	**(2,457,732)**	(1,983,383)
Gross profit		**189,540**	211,513
Other income and other gains, net	6	**5,165**	1,594
Administrative, selling and other operating expenses	7	**(160,940)**	(174,840)
Finance costs	8	**(15,295)**	(11,549)
Profit before tax		**18,470**	26,718
Income tax charge	9	**(57,796)**	(22,490)
(Loss)/profit for the year		**(39,326)**	4,228
Profit/(loss) for the year attributable to:			
Owners of the Company		**88,391**	71,463
Non-controlling interests		**(127,717)**	(67,235)
		(39,326)	4,228
Earnings per share (HK cents)			
Basic and diluted	13	**4.10**	3.32

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
(Loss)/profit for the year	**(39,326)**	4,228
Other comprehensive income		
Items that may be reclassified to profit and loss		
Exchange differences arising on translation of foreign operations	**(12,315)**	(47,409)
Release of investment revaluation reserve to profit and loss upon disposal of available-for-sale investments	**440**	—
Gain on fair value changes of available-for-sale investments	**—**	208
Other comprehensive income for the year, net of tax	**(11,875)**	(47,201)
Total comprehensive income for the year, net of tax	**(51,201)**	(42,973)
Total comprehensive income for the year attributable to:		
Owners of the Company	**74,851**	41,426
Non-controlling interests	**(126,052)**	(84,399)
	(51,201)	(42,973)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current Assets			
Property, plant and equipment	14	**143,500**	138,500
Prepaid lease payments	15	**33,130**	—
Goodwill	16	**138,149**	138,149
Deferred tax assets	27	**147,013**	161,519
		461,792	438,168
Current Assets			
Inventories	19	**10,341**	13,649
Amounts due from customers for contract work	20	**565,763**	574,975
Trade and other receivables	21	**793,406**	817,879
Deposits and prepayments		**41,443**	31,834
Available-for-sale investments	17	**—**	19,061
Tax recoverable		**489**	884
Amounts due from fellow subsidiaries	22	**24,527**	—
Bank and cash balances	23	**386,891**	200,485
		1,822,860	1,658,767
		2,284,652	2,096,935
Current Liabilities			
Bank and other borrowings	24	**322,843**	180,391
Amounts due to customers for contract work	20	**137,440**	182,027
Trade payables, other payables and accruals	25	**572,351**	462,654
Finance lease payables	26	**774**	951
Current tax payables		**68,269**	44,722
Amounts due to fellow subsidiaries	22	**29,370**	1,727
Deposits received and advances from customers		**66,947**	43,126
		1,197,994	915,598
Total Assets less Current Liabilities		**1,086,658**	1,181,337

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Capital and Reserves			
Share capital	29	**21,555**	21,555
Share premium and reserves	30	**907,930**	1,151,024
Equity attributable to owners of the Company		**929,485**	1,172,579
Non-controlling interests		**(45,258)**	(206,974)
		884,227	965,605
Non-current liabilities			
Bank and other borrowings	24	**200,000**	212,720
Finance lease payables	26	**2,138**	2,719
Deferred tax liabilities	27	**293**	293
		202,431	215,732
		1,086,658	1,181,337

On behalf of the Board

Zhu Yijian
Director

Chan Sim Wang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company										
	Share capital (note 29) HK$'000	Share premium (note 30) HK$'000	Special reserve (note 30) HK$'000	Share-based payments reserve (note 30) HK$'000	Investment revaluation reserve (note 30) HK$'000	Foreign currency translation reserve (note 30) HK$'000	Statutory reserves (note 30) HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2015	21,555	898,654	(25,053)	4,636	(648)	(3,824)	12	259,532	1,154,864	(122,588)	1,032,276
Profit/(loss) for the year	—	—	—	—	—	—	—	71,463	71,463	(67,235)	4,228
Gain on fair value changes of available-for-sale investments	—	—	—	—	208	—	—	—	208	—	208
Exchange differences arising on translation of foreign operations	—	—	—	—	—	(30,245)	—	—	(30,245)	(17,164)	(47,409)
Total comprehensive income for the year	—	—	—	—	208	(30,245)	—	71,463	41,426	(84,399)	(42,973)
Contribution from non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	13	13
2014 final dividend paid	—	—	—	—	—	—	—	(10,778)	(10,778)	—	(10,778)
2015 interim dividend paid	—	—	—	—	—	—	—	(12,933)	(12,933)	—	(12,933)
At 31 December 2015 and 1 January 2016	21,555	898,654	(25,053)	4,636	(440)	(34,069)	12	307,284	1,172,579	(206,974)	965,605
Profit/(loss) for the year	—	—	—	—	—	—	—	88,391	88,391	(127,717)	(39,326)
Release of investment revaluation reserve to profit and loss upon disposal of available-for-sale investments	—	—	—	—	440	—	—	—	440	—	440
Exchange differences arising on translation of foreign operations	—	—	—	—	—	(13,980)	—	—	(13,980)	1,665	(12,315)
Total comprehensive income for the year	—	—	—	—	440	(13,980)	—	88,391	74,851	(126,052)	(51,201)
Acquisition of additional interests in subsidiaries	—	—	(287,768)	—	—	—	—	—	(287,768)	287,768	—
2015 final dividend paid	—	—	—	—	—	—	—	(12,933)	(12,933)	—	(12,933)
2016 interim dividend paid	—	—	—	—	—	—	—	(17,244)	(17,244)	—	(17,244)
At 31 December 2016	21,555	898,654	(312,821)	4,636	—	(48,049)	12	365,498	929,485	(45,258)	884,227

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Profit before tax	**18,470**	26,718
Adjustments for:		
Finance costs	**15,295**	11,549
Bank interest income	**(916)**	(549)
Loss on disposal of property, plant and equipment	**74**	2,200
Warranty provisions, net	**14,921**	7,775
Depreciation	**7,442**	9,669
Amortisation of prepaid lease payments	**117**	—
Provision of trade and other receivables, net	**1,325**	1,764
Reversal of other payables and accruals	**—**	(2,290)
Operating cash flows before working capital changes	**56,728**	56,836
Decrease/(increase) in inventories	**3,308**	(1,098)
(Increase)/decrease in amounts due from/to customers for contract work, net	**(28,555)**	255,128
Decrease/(increase) in trade and other receivables	**23,148**	(350,811)
Increase in deposits and prepayments	**(9,609)**	(1,095)
Increase/(decrease) in amounts due from/to fellow subsidiaries, net	**3,116**	(57,584)
Increase in trade payables, other payables and accruals	**94,619**	124,752
Increase/(decrease) in deposits received and advances from customers	**23,821**	(37,371)
Net cash generated from/(used in) operations	**166,576**	(11,243)
Income tax paid, net	**(21,093)**	(7,276)
Net cash generated from/(used in) operating activities	**145,483**	(18,519)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(19,377)**	(6,295)
Payment for prepaid lease	**(33,240)**	—
Proceeds from disposals of property, plant and equipment	**77**	38
Proceeds from disposals of available-for-sale investments	**19,501**	—
Interest received	**916**	549
Net cash used in investing activities	**(32,123)**	(5,708)
Cash flows from financing activities		
Finance costs paid	**(15,295)**	(11,549)
Drawdown/(repayment) of bank loans, net	**125,972**	60,536
Repayment of finance lease payables	**(758)**	(808)
Share capital paid from non-controlling interests of a subsidiary	**—**	13
Dividends paid	**(30,177)**	(23,711)
Net cash generated from financing activities	**79,742**	24,481
Net increase in cash and cash equivalents	**193,102**	254
Effect of foreign exchange rate changes	**(6,696)**	(41,799)
Cash and cash equivalents at the beginning of year	**200,485**	242,030
Cash and cash equivalents at the end of year	**386,891**	200,485
Analysis of cash and cash equivalents		
Bank and cash balances	**386,891**	200,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Far East Global Group Limited (the "Company") and its subsidiaries (together the "Group") are involved in the general contracting business and the facade contracting business, including the design, engineering, manufacture and installation of curtain wall systems made primarily of fabricated aluminium cladding, stainless steel and glass.

In 2016, the Group developed municipal planning, management and consulting service business.

The Company is a limited liability company incorporated in the Cayman Islands and under the Companies Law of the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 16th Floor, Eight Commercial Tower, No. 8 Sun Yip Street, Chai Wan, Hong Kong.

Its immediate holding company is Add Treasure Holdings Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL") whose shares are listed on the Stock Exchange of Hong Kong Limited.

Its intermediate holding company is China Overseas Holdings Limited, a company incorporated in Hong Kong which, in turn, is a wholly-owned subsidiary of China State Construction Engineering Corporation Limited ("CSCECL"). CSCECL is a joint stock company established in the People's Republic of China ("PRC") with its shares listed on the Shanghai Stock Exchange. The Company's ultimate holding company is China State Construction Engineering Corporation ("CSCEC") which is a state-owned enterprise established in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited since 30 March 2010.

These consolidated financial statements are presented in the thousands of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosures in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of amendments and improvements to existing standards

In the current year, the Group has applied the following amendments and improvements to existing Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Annual Improvements Project	Annual Improvements to HKFRS 2012–2014 Cycle

The application of the above new HKFRSs in the current year has had no material impact on the Group's results and financial position.

New standards and amendments to existing standards not yet effective

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

Amendments to HKAS 7	Statement of Cash Flows[1]
Amendments to HKAS 12	Income Taxes[1]
Amendments to HKFRS 2	Share-based Payment[2]
Amendments to HKFRS 4	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS15, Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The Group will adopt the above standards and amendments to existing standards as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 15, "Revenue from Contracts with Customers"

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. At this stage, the Group is in the process of assessing the impact of HKFRS 15 on the Group's financial statements.

HKFRS 16, "Leases"

HKFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

A subsidiary is an entity (including structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations — common control combinations

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 'Merger Accounting for Common Control Combinations'. In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries *(Continued)*

Business combinations — common control combinations (Continued)

The consolidated income statement also takes into account the profit or loss attributable to the non-controlling interests of the controlling party. Upon the completion of common control combinations, the retained profit of the combining entities or business is transferred to the retained profits of the Group.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Business combinations — acquisition method

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statement.

(c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(ii) Transactions and balances *(Continued)*

Foreign exchange gains and losses are presented in the income statement within 'other income and other gains, net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Foreign currency translation *(Continued)*

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, 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, a disposal involving loss of joint control over a joint venture 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 equity holders of the Company are reclassified to consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

(f) Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold land	Not depreciated
Land and buildings	Over the shorter of the term of the relevant lease or 50 years
Leasehold improvements	4 years
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	4–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income and other gains, net' in the income statement.

(g) 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.

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 or investment properties.

(h) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill is not subject to amortisation and is tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprises 'deposits and prepayments', 'trade and other receivables' and 'bank and cash balances' in the statement of financial position.

(ii) Available-for-sale investment

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale investments are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial assets *(Continued)*

(ii) Available-for-sale investment *(Continued)*

Recognition and measurement (Continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'other income and other gains, net'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the group's right to receive payments is established.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(k) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of financial assets *(Continued)*

(i) Assets carried at amortised cost *(Continued)*

For loans and receivables category, the amount of the 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to the event occurred after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. In the case of equity investment classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement — is removed from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts

When the outcome of a construction contract can be estimated reliably revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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

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

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2(j) for further information about the Group's accounting for trade receivables and Note 2(k) for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(p) Trade payables, other payables and accruals

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

(r) Borrowing costs

Relevant general and specific 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Current and deferred income tax *(Continued)*

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(v) Leases, the Group as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Employee benefits

(i) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(x) Share-based payments

(a) Equity-settled share-based payment transactions

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in consolidated income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Share-based payments *(Continued)*

(b) Share-based payment transactions among group entities

Incentive shares granted by an intermediate holding company to the employees of the Group is treated as capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

(y) Revenue recognition

(i) Construction contracts

When the outcome of a fixed price construction contract can be estimated reliably, revenue is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract, after making due allowances for contingencies. Provisions are made for any foreseeable losses when they are identified. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a cost-plus construction contract including construction services of the infrastructure under service concession arrangements can be estimated reliably, revenue is recognised by reference to the recoverable costs incurred during the year plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

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

(ii) Interest income

Interest income on bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Rental income

Rental income is recognised on a straight-line basis over the term of the lease.

(iv) Service income

Service income is recognised on accrual basis when the services are rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability, other than that assumed in a business combination, is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(aa) Insurance contracts

The Group assesses at the end of each reporting period the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the end of the reporting period, the Group recognises the entire difference in the consolidated income statement. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar, Renminbi and the Australian dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's foreign currency exposures primarily arise from monetary assets and liabilities that are denominated in a currency that is not the entity's functional currency, where these assets and liabilities are mainly denominated in United States dollar, Renminbi and Australian dollar.

In view of the fact that the Hong Kong dollar is pegged to the United States dollar, the foreign currency exposure of operating units having the Hong Kong dollar as their functional currency on United States dollar transactions and balances is minimal.

At 31 December 2016, if the Hong Kong dollar had weakened/strengthened 5% against Renminbi and the Australian dollar with all other variables held constant, the consolidated profit for the year would have been HK$123,000 higher/lower (2015: HK$556,000 higher/lower) and HK$595,000 lower/higher (2015: HK$593,000 lower/higher), respectively.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The Group currently does not have a formal foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Interest rate risk

The Group's interest rate risk arises from bank and other borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2016 and 2015, the Group's borrowings at variable rate were denominated in the Hong Kong dollar, Canadian dollar and United States dollar.

The sensitivity analyses below have been determined based on the exposure to interest rates for floating interest debt securities and variable-rate trade and other receivables and bank 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. A 50 (2015: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

At 31 December 2016, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been HK$1,670,000 lower/higher (2015: HK$1,236,000 lower/higher), arising mainly as a result of higher/lower interest expense on bank and other borrowings, netting off against bank interest income.

(b) Credit risk

The carrying amount of the bank and cash balances, deposits and prepayments, amounts due from fellow subsidiaries and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has policies in place to ensure that sales are made to customers and fellow subsidiaries with an appropriate credit history. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Group					
At 31 December 2016					
Trade payables, other payables and accruals, excluding warranty provision	**514,514**	**30,882**	**—**	**—**	**545,396**
Amounts due to fellow subsidiaries	**29,370**	**—**	**—**	**—**	**29,370**
Bank and other borrowings	**328,032**	**4,720**	**204,720**	**—**	**537,472**
Finance lease payables	**797**	**644**	**1,717**	**263**	**3,421**
	872,713	**36,246**	**206,437**	**263**	**1,115,659**
At 31 December 2015					
Trade payables, other payables and accruals, excluding warranty provision	411,747	29,733	—	—	441,480
Amounts due to fellow subsidiaries	1,727	—	—	—	1,727
Bank and other borrowings	186,293	18,274	205,100	—	409,667
Finance lease payables	978	794	1,773	859	4,404
	600,745	48,801	206,873	859	857,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current bank and other borrowings' as shown in the consolidated statement of financial position) less bank and cash balances. Total capital is calculated as 'equity attributable to the owners of the Company' and 'non-controlling interests' as shown in the consolidated statement of financial position.

The gearing ratio is calculated as follows:

	2016 HK$'000	2015 HK$'000
Bank and other borrowings	**522,843**	393,111
Add: finance lease payables	**2,912**	3,670
Less: bank and cash balances	**(386,891)**	(200,485)
Net debt	**138,864**	196,296
Net assets	**884,227**	965,605
Gearing ratio	**15.7%**	20.3%

The gearing ratio decreased from 20.3% to 15.7% was resulted by an increase in bank and cash balances generated from operating activities.

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale investments				
— Certificate of deposits	—	—	19,061	19,061
Total assets	—	—	19,061	19,061

During the year ended 31 December 2016, the available-for-sale investments were disposed.

The change in fair value of available-for-sale investments in level 3 was recognised in other comprehensive income.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group has adopted the indicative market value provided by the issuer as its best estimate of the fair value of the investment.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Deposits and prepayments
- Bank and cash balances
- Amounts due from/to fellow subsidiaries
- Deposits received and advances from customers
- Trade payables, other payables and accruals
- Bank and other borrowings

The following table presents the changes in level 3 instruments for the years ended 31 December 2016 and 2015.

	Available-for-sale investments	
	2016	2015
	HK$'000	HK$'000
Opening balance	**19,061**	18,853
Disposal of available-for-sale investments	**(19,061)**	—
Net gain on fair value changes recognised in other comprehensive income	—	208
Closing balance	—	19,061

Changing unobservable inputs used in the level 3 valuation to reasonable alternative assumptions would not change significantly the fair values recognised.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Construction contracts

As explained in note 2(y), revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contract, as well as the work done to date. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic reviews of management budgets by comparing the budgeted amounts to the actual amounts incurred.

A considerable amount of judgement is required in estimating the total contract revenue, contract costs, variation works and contract claims which may have an impact in terms of percentage of completion and job profit taken.

(ii) Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges and costs of materials are prepared by management on the basis of quotations from time to time provided by the major contractors/suppliers/vendors involved and experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic review of management budgets by comparing the budgeted amounts to the actual amounts incurred.

(iii) Impairment of assets

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2(h). The recoverable amount of goodwill is the higher of the fair values less costs of disposal and value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(iii) Impairment of assets *(Continued)*

Impairment of goodwill *(Continued)*

A considerable amount of judgement and assumptions are required in estimating the recoverable amount of goodwill, including growth rate, gross margin and weighted average discount rate applied to the discounted cashflows.

Impairment of property, plant and equipment

The Group regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, the Group assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Estimates and judgements are applied in determining these future cash flows and the discount rate. The Group estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

(iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts and relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The Group has exercised significant accounting judgement on recognition and utilisation of deferred tax assets in respect of losses, particular for the North America division. The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement regarding the future financial performance of the relevant division. Those significant estimations and judgement include gross profit margin, overhead and capital expenditure applied to the profit forecasts.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(v) Allowances for bad and doubtful debts

The allowances for bad and doubtful debts of the Group are based on the evaluation of collectability and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the creditworthiness and the past collection history of each customer.

(vi) Warranty provision

The Group provides a maintenance warranty for a period of 10 years for the projects completed by the Group. The Group undertakes to rectify the product that fail to perform satisfactorily. The warranty provision has been recognised at the year end for expected warranty claims based on past experience of the level of repairs and returns. Management will review the sufficiency of provision and make adjustments, if appropriate, at the end of each reporting period.

5 REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the facade contracting business, general contracting business and urban planning management and consultation business. The Group's revenue represents revenue from construction contracts.

As a result of reporting structure reorganisation, the Group has reclassified the reportable segments into three operating segments, principally based on reportable business units as well as the reporting organisation hierarchy, which are determined as follows:

— Facade Contracting Works

— General Contracting Works

— Urban Planning Management and Consultation Services

The executive directors of the Company are the Group's chief operating decision-maker ("CODM"). The CODM assesses the performance of the operating segments based on a measure of adjusted profit or loss before interest and tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, if any, such as restructuring costs, legal expenses and impairment of goodwill. The measurement also excludes the effects of share-based payments and unrealised gains/losses on financial instruments. Interest income and expenses resulting from the central treasury function are not allocated to segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment results for the years ended 31 December 2016 and 2015 are as follows:

	Revenue		Gross profit		Segment result	
	2016 HK$'000	2015 HK$'000 (reclassified)	2016 HK$'000	2015 HK$'000 (reclassified)	2016 HK$'000	2015 HK$'000 (reclassified)
Façade Contracting Works	**2,190,069**	2,041,338	**139,679**	202,649	**37,210**	88,528
General Contracting Works	**457,203**	153,558	**49,861**	8,864	**49,756**	8,818
Total	**2,647,272**	2,194,896	**189,540**	211,513	**86,966**	97,346
Unallocated administrative, selling and other operating expenses					**(54,262)**	(59,355)
Other income and other gains, net					**1,061**	276
Finance costs					**(15,295)**	(11,549)
Profit before tax					**18,470**	26,718

Segment revenue of Facade Contracting Works comprises revenue from Greater China, Asia and other regions amounting to HK$1,570,081,000 (2015: HK$1,247,998,000) and the revenue from North America region amounting to HK$619,988,000 (2015: HK$793,340,000). Segment revenue of General Contracting Works represents revenue from Greater China, Asia and other regions.

Amounts included in the measurement of segment result:

	Facade Contracting Works		General Contracting Works		Total	
	2016 HK$'000	2015 HK$'000 (reclassified)	2016 HK$'000	2015 HK$'000 (reclassified)	2016 HK$'000	2015 HK$'000 (reclassified)
Depreciation of property, plant and equipment	**7,442**	9,669	**—**	—	**7,442**	9,669
Loss on disposal of property, plant and equipment	**74**	2,200	**—**	—	**74**	2,200

5 REVENUE AND SEGMENT INFORMATION *(Continued)*

An analysis of the Group's financial position by territory is as follows:

	Non-current assets*		Additions to property, plant and equipment	
	2016	2015	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000
North America	**214,217**	214,938	**6,271**	1,584
Greater China, Asia and Others	**100,562**	61,711	**13,106**	6,365
	314,779	276,649	**19,377**	7,949

* Other than deferred tax assets.

Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are used by the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

Major customer information

Revenue from two (2015: one) customers, one in Façade Contracting Works and one in General Contracting Works (2015: Façade Contracting Works), amounted to approximately HK$694,838,000 and HK$309,315,000 respectively (2015: HK$290,845,000), which each represents more than 10 per cent of the Group's total revenue.

6 OTHER INCOME AND OTHER GAINS, NET

	2016	2015
	HK$'000	HK$'000
Bank interest income	**916**	549
Exchange gain	**2,855**	—
Reversal of other payables and accruals	**—**	2,290
Rental income	**237**	241
Service income	**1,397**	1,333
Sundry income	**1,159**	1,145
Provision of trade and other receivables, net	**(1,325)**	(1,764)
Loss on disposal of property, plant and equipment	**(74)**	(2,200)
	5,165	1,594

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

	2016 HK$'000	2015 HK$'000
Cost of sales		
Cost of contracting works performed	**2,442,811**	1,975,608
Warranty provisions, net	**14,921**	7,775
	2,457,732	1,983,383
Administrative,selling and other operating expenses		
Staff costs, including directors' emoluments:		
Salaries, bonuses and allowances	**512,576**	498,056
Retirement benefits scheme contributions	**12,292**	9,162
Less: amounts included in cost of contracting works performed	**(430,885)**	(411,977)
	93,983	95,241
Depreciation of property, plant and equipment	**14,059**	16,688
Less: amounts included in cost of contracting works performed	**(6,617)**	(7,019)
	7,442	9,669
Amortisation of prepaid lease payments	**117**	—
Operating lease charges — land and buildings	**35,492**	34,856
Less: amounts included in cost of contracting works performed	**(24,084)**	(20,931)
	11,408	13,925
Auditor's remuneration		
— Audit services	**2,371**	2,245
— Non-audit services	**482**	373
	2,853	2,618
Others	**45,137**	53,387
	160,940	174,840

8 FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**15,076**	11,292
Finance lease charges	**219**	257
	15,295	11,549

9 INCOME TAX CHARGE

(a) The amount of taxation charged to the consolidated income statement represents:

	2016 HK$'000	2015 HK$'000
Current tax — Hong Kong profits tax		
Provision for the year	**40,587**	2,081
Overprovision in prior years	**(46)**	(461)
	40,541	1,620
Current tax — overseas		
Provision for the year	**4,321**	31,489
Under/(over)provision in prior years	**418**	(914)
	4,739	30,575
Deferred tax, net (note 27)	**12,516**	(9,705)
Income tax charge for the year	**57,796**	22,490

Hong Kong profits tax has been provided at 16.5% of the estimated assessable profit for both years.

Certain of the Group's subsidiaries in the Mainland China were approved as new and high technology enterprises pursuant to which the Mainland China subsidiaries can enjoy a preferential income tax rate of 15% effective from 2015 to 2017.

The tax charge on estimated assessable profits elsewhere has been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices.

(b) The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2016 HK$'000	2015 HK$'000
Profit before tax	**18,470**	26,718
Taxation at Hong Kong profits tax rate at 16.5%	**3,048**	4,408
Effect of different taxation rates in other countries	**(57,145)**	(31,196)
Income not subject to taxation	**(4,361)**	(1,863)
Expenses not deductible for taxation purposes	**26,508**	19,059
Temporary differences not recognised	**114**	(23)
Tax losses not recognised	**89,260**	45,784
Recognition of tax losses not previously recognised	**—**	(8,781)
Utilisation of tax losses not recognised	**—**	(3,523)
Under/(over)provision in prior years	**372**	(1,375)
Income tax charge	**57,796**	22,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking				
Name	Fees HK$'000	Salary and allowances HK$'000	Discretionary bonuses HK$'000	Employer's contribution to benefit scheme HK$'000	Total HK$'000
Zhou Yong	**800**	**—**	**—**	**—**	**800**
Zhu Yijian	**—**	**2,064**	**2,209**	**18**	**4,291**
Luo Haichuan	**—**	**1,524**	**1,877**	**18**	**3,419**
Wang Hai	**—**	**1,695**	**1,480**	**—**	**3,175**
Chan Sim Wang	**—**	**1,174**	**300**	**18**	**1,492**
Qin Jidong (v)	**—**	**1,253**	**1,301**	**—**	**2,554**
Zhou Jinsong	**165**	**—**	**—**	**—**	**165**
Hong Winn	**135**	**—**	**—**	**—**	**135**
Kwong Sum Yee Anna	**135**	**—**	**—**	**—**	**135**
	1,235	**7,710**	**7,167**	**54**	**16,166**

For the year ended 31 December 2015:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the company or its subsidiary undertaking				
Name	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to benefit scheme HK$'000	Total HK$'000
Zhou Yong	800	—	—	—	800
Zhang Yifeng (i)	—	971	440	94	1,505
Zhu Yijian (ii)	—	1,584	1,629	116	3,329
Luo Haichuan (iii)	—	396	1,255	—	1,651
Wang Hai (iv)	—	1,695	1,111	—	2,806
Chan Sim Wang	—	1,122	268	18	1,408
Qin Jidong	—	1,253	1,356	—	2,609
Zhou Jinsong	150	—	—	—	150
Hong Winn	120	—	—	—	120
Kwong Sum Yee Anna	120	—	—	—	120
	1,190	7,021	6,059	228	14,498

10 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

Notes:

(i) Appointed as Executive Director on 11 March 2014, as Chief Executive Officer on 16 July 2014, resigned as Executive Director and Chief Executive Officer on 21 September 2015.

(ii) Appointed as Executive Director on 16 July 2014 and as Chief Executive Officer on 21 September 2015.

(iii) Appointment effective on 21 September 2015.

(iv) Appointed as Chief Executive Officer on 30 May 2014, redesignated as Associate Chief Executive Officer on 16 July 2014 and ceased as Associate Chief Executive Officer on 21 September 2015.

(v) Resigned as Executive Director on 16 March 2017.

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

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Five highest paid individuals

The five highest paid individuals in the Group during the year included 4 (2015: 3) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2015: 2) individual is set out below:

	2016 HK$'000	2015 HK$'000
Basic salaries and allowances	**1,957**	3,613
Discretionary bonuses	**163**	670
Retirement benefit scheme contributions	**46**	18
	2,166	4,301

The emoluments fell within the following bands:

	2016 No. of employees	2015 No. of employees
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**1**	—
HK$2,500,001 to HK$3,000,000	**—**	1
HK$3,000,001 to HK$3,500,000	**—**	—
	1	2

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 SENIOR MANAGEMENT EMOLUMENTS

The emoluments of the senior management for the year ended 31 December 2016 and 2015 were as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other benefits	**14,418**	14,030
Contributions to retirement benefit schemes	**554**	233
	14,972	14,263

The emoluments of the senior management for 2016 and 2015 were within the following bands:

	2016 No. of employees	2015 No. of employees
HK$1,000,000 or less	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**6**	6
HK$2,000,001 to HK$2,500,000	**1**	—
More than HK$2,500,001	**—**	1
	9	9

12 DIVIDENDS

	2016 HK$'000	2015 HK$'000
Interim dividend paid of HK0.8 cent (2015: HK0.6 cent) per ordinary share	**17,244**	12,933
Final proposed dividend of HK0.8 cent (2015: HK0.6 cent) per ordinary share	**17,244**	12,933
	34,488	25,866

The final dividend proposed after 31 December 2016 was not recognised as a liability at 31 December 2016 and is subject to approval by shareholders in the forthcoming annual general meeting. The final dividend for 2015 was recognised and paid during the year.

13 EARNINGS PER SHARE

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

	2016 HK$'000	2015 HK$'000
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	**88,391**	71,463
Number of shares	'000	'000
Weighted average number of ordinary shares used in diluted earnings per share calculation	**2,155,545**	2,155,545
Basic earnings per share (HK cents)	**4.10**	3.32

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the year ended 31 December 2016 (2015: Nil).

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14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2015	134,049	2,546	37,788	43,356	4,221	4,770	226,730
Exchange difference	(3,907)	(235)	(2,961)	(2,934)	(94)	—	(10,131)
Additions	—	23	3,501	4,425	—	—	7,949
Disposals	—	—	—	(3,989)	—	—	(3,989)
At 31 December 2015	130,142	2,334	38,328	40,858	4,127	4,770	220,559
Exchange difference	218	41	(206)	(580)	462	—	(65)
Additions	3,629	650	9,898	4,440	671	89	19,377
Disposals	—	—	(50)	(590)	(603)	—	(1,243)
At 31 December 2016	133,989	3,025	47,970	44,128	4,657	4,859	238,628
Accumulated depreciation and impairment							
At 1 January 2015	22,564	1,312	18,647	22,282	2,630	4,770	72,205
Exchange difference	(1,020)	(205)	(2,402)	(1,367)	(89)	—	(5,083)
Charge for the year	2,731	533	6,023	6,577	824	—	16,688
Disposals	—	—	—	(1,751)	—	—	(1,751)
At 31 December 2015	24,275	1,640	22,268	25,741	3,365	4,770	82,059
Exchange difference	5	36	(65)	(340)	466	—	102
Charge for the year	2,689	487	4,479	5,913	491	—	14,059
Disposals	—	—	(14)	(475)	(603)	—	(1,092)
At 31 December 2016	26,969	2,163	26,668	30,839	3,719	4,770	95,128
Net book value as at							
At 31 December 2016	107,020	862	21,302	13,289	938	89	143,500
At 31 December 2015	105,867	694	16,060	15,117	762	—	138,500

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Located in:		
Hong Kong, under medium-term leases	**50,645**	50,645
Mainland China, under medium-term leases	**7,306**	7,306
Canada, freehold	**19,611**	15,764
The United States of America, freehold	**56,427**	56,427
	133,989	130,142

At 31 December 2016, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounted to HK$18,383,000 (2015: HK$14,463,000) (Note 24).

At 31 December 2016, the carrying amount of property and motor vehicles held under finance lease is HK$34,092,000 (2015: HK$35,051,000) (Note 26).

15 PREPAID LEASE PAYMENTS

As at 31 December 2016, the Group's prepaid lease payments comprise leasehold land located in Mainland China under medium-term lease.

16 GOODWILL

	HK$'000
Cost, at 31 December 2016 and 31 December 2015	159,707
Accumulated impairment, at 31 December 2016 and 31 December 2015	(21,558)
Carrying values, at 31 December 2016 and 31 December 2015	138,149

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("CGU") that is expected to benefit from that business combination.

The carrying amount of goodwill had been allocated to the CGU relating to the operations of Gamma North America, Inc. and its subsidiaries ("Gamma Group") within the North America segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 GOODWILL *(Continued)*

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on the long-term average economic growth rate of the geographical area in which the businesses of the CGU operate. Budgeted gross margin and turnover are based on past practices and expectations of market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next fourteen years with the average growth rate ranging from 3%–15% and the residual period using the growth rate of 3%. These rates do not exceed the average long-term growth rate for the relevant markets. A financial budget of fourteen years reflects the medium term plan of management in expanding the customer base and market share. The pre-tax rates used to discount the forecast cash flows are ranging from 22.06% to 26.31%. With all other variables held constant, if the revenue growth rates used in the value-in-use calculation had been decreased by 2.55% or the pre-tax discount rate used in the value-in-use calculation had been increased by 3.15% than management estimated as at 31 December 2016, the headroom would drop to Nil.

17 AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Unlisted investments, at fair value:		
Certificate of deposits	–	19,061
	–	19,061

The certificate of deposits were designated as available-for-sale investments on initial recognition. These investments are capital guaranteed.

The fair value of unlisted available-for-sale investments is determined by reference to the quoted market price or secondary market redemption price as provided by the issuer of the underlying investments.

The certificate of deposits were arranged at floating rates and disposed in February 2016.

18 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Far East Aluminium (B.V.I.) Limited	British Virgin Islands	6,000 ordinary shares of US$1 each	100%	—	Investment holding
Far East Aluminium Works Company Limited	Hong Kong	900,000 ordinary shares of HK$188,952,242 5,000 non-voting deferred shares of HK$500,000	—	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK$2	—	100%	Building constructions
Far East Facade (UK) Limited	United Kingdom	1 ordinary share of GBP1	—	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Far East Facade (UAE) Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	—	100%	Investment holding
World Eastern Cladding Works (LLC)	United Arab of Emirates	100 ordinary shares of AED3,000 each	—	100%	Installation of curtain walls, aluminium windows and other related products
Far East Facade, Inc.	United States of America	100,000 common shares of US$0.01 each	—	100%	Installation of curtain walls, aluminium windows and other related products
Far East Facade (HK) Limited	British Virgin Islands	10,000 ordinary shares of US$1 each	—	100%	Investment holding
Heng Fai International Limited	Hong Kong	1 ordinary share of HK$1	—	100%	Investment holding
Venture Synergy Limited	British Virgin Islands	1 ordinary share of US$1	—	100%	Investment holding
Netfortune Limited	Hong Kong	500,000 ordinary shares of HK$500,000	—	100%	Investment holding
Netfortune Enterprise Limited	British Virgin Islands	1 ordinary share of US$1	—	100%	Investment holding
China State Development Holdings Limited (formerly known as Far East Global Investment (China) Limited)	Hong Kong	5,000,000 ordinary shares of HK$5,000,000	—	100%	Investment holding
Willbert Limited	British Virgin Islands	1 ordinary shares of US$1	—	100%	Property holding
Far East Aluminium Works (Guangzhou) Company Limited	Hong Kong	2 ordinary shares of HK$2	—	100%	Property holding
FEA Engineering Limited	British Virgin Islands	100 ordinary shares of US$1 each	—	100%	Investment holding
FEA Investments Limited	British Virgin Islands	1 ordinary share of US$1	—	100%	Investment holding
Better View Investment Limited	Hong Kong	2 ordinary shares of HK$2	—	100%	Property holding
FEA Corporate Services Limited	Hong Kong	2 ordinary shares of HK$2	—	100%	Provision of company secretarial services to Group companies
Far East Global Investment Ltd	British Virgin Islands	1 ordinary shares of US$1	—	100%	Investment holding
Far East Global Property Development Ltd	Hong Kong	1 ordinary share of HK$1	—	100%	Building construction and project management
Far East Aluminium Works (Singapore) Pte. Ltd.	Singapore	700,000 ordinary shares of SGD1 each	—	100%	Installation of curtain walls, aluminum windows and other related products
上海力進鋁質工程有限公司	The People's Republic of China	Registered capital of RMB10,000,000	—	100%	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Netfortune Engineering (FEA) Macau Limited	Macau	25,000 ordinary shares of MOP1 each	—	100%	Installation of curtain walls, aluminum windows and other related products
Far East Aluminum Works (U.S.) Corporation	United States of America	200,000,000 common stock of US$0.001 each	—	100%	Installation of curtain walls, aluminium windows and other related products
China State Construction Urban Development Consulting Limited[(2)]	Hong Kong	1,000,000 ordinary shares of HK$1,000,000	—	100%	Consultancy Service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Far East Facade Investments Limited	British Virgin Islands	10,000 ordinary share of US$1 each	—	100%	Investment holding
Far East Aluminium Works Canada Corp.	Canada	100 common stock of CAD1 each	—	100%	Installation of curtain walls, aluminium windows and other related products
Far East Aluminium Works Chile Limitada	Chile	Registered share capital of PESO10,000,000	—	100%	Installation of curtain walls, aluminium windows and other related products
遠東幕牆制品（深圳）有限公司	The People's Republic of China	Registered capital of HK$20,000,000	—	100%	Manufacture of curtain walls, aluminium windows and other related products
Gamma Buffalo, Inc.	United States of America	1 share of US$1	—	100%	Property holding
Gamma North America, Inc.	United States of America	1,000 shares of US$0.001 each	—	93.63%[(1)]	Investment holding
Gamma USA, Inc.	United States of America	1,000 shares of US$0.001 each	—	93.63%[(1)]	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Gamma Installations, Inc.	United States of America	100 shares of US$0.001 each	—	93.63%[(1)]	Installation of curtain walls, aluminium windows and other related products
Gamma Windows and Walls International Inc.	Canada	100 common shares of CAD 53,362.36 each	—	93.63%[(1)]	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Gamma North Corporation	United States of America	1 share of US$1	—	93.63%[(1)]	Manufacture of curtain walls, aluminium windows and other related products

(1) The percentage of ownership interest of these subsidiaries increased from 55% to 93.63% follow by a further acquisition in 2016.

(2) Newly incorporated in 2016.

(a) Material non-controlling interests

The non-controlling interest as at 31 December 2016 of HK$45,258,000 (2015: HK$206,974,000) is mainly for Gamma Group within the North America division.

Set out below is the summarised financial information for Gamma Group that has non-controlling interests that are material to the Group.

18 SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests *(Continued)*

Summarised statement of financial position

	Gamma Group	
	2016	2015
	HK$'000	HK$'000
Current		
Assets	**502,236**	612,458
Liabilities	**(1,385,071)**	(1,231,852)
Total current net liabilities	**(882,835)**	(619,394)
Non-current		
Assets	**172,104**	171,737
Liabilities	**(66)**	(12,980)
Total non-current net assets	**172,038**	158,757
Net liabilities	**(710,797)**	(460,637)

Summarised income statement

	Gamma Group	
	2016	2015
	HK$'000	HK$'000
Revenue	**619,771**	791,204
Loss before tax	**(287,343)**	(149,357)
Income tax charge	**(42)**	—
Other comprehensive income	**6,026**	(38,142)
Total comprehensive income	**(281,359)**	(187,499)
Other comprehensive income allocated to non-controlling interests	**1,665**	(17,164)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 SUBSIDIARIES *(Continued)*

(a) Material non-controlling interests *(Continued)*

Summarised cash flow

	Gamma Group	
	2016 HK$'000	2015 HK$'000
Operating cash flows		
Cash used in operations	**(137,180)**	(56,918)
Interest paid	**8,100**	6,072
Income tax refund	**42**	(324)
Net cash used in operating activities	**(129,038)**	(51,170)
Net cash used in investing activities	**(6,228)**	(1,584)
Net cash from financing activities	**125,635**	60,091
Net (decrease)/increase in cash and cash equivalents	**(9,631)**	7,337
Cash and cash equivalents at beginning of year	**12,432**	5,100
Effect of foreign exchange rate changes	**3,810**	(5)
Cash and cash equivalents at end of year	**6,611**	12,432

The information above is before inter-company eliminations.

19 INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**10,341**	13,649

The cost of inventories recognised as expense and included in 'cost of sales' amounted to approximately HK$218,934,931 (2015: HK$202,098,000).

20 AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	2016 HK$'000	2015 HK$'000
Contract costs incurred plus recognised profits less foreseeable losses	**8,580,654**	7,859,026
Less: progress billings	**(8,152,331)**	(7,466,078)
	428,323	392,948
Amounts due from contract customers	**565,763**	574,975
Amounts due to contract customers	**(137,440)**	(182,027)
	428,323	392,948

21 TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**371,926**	451,255
Retention receivables	**392,546**	318,731
	764,472	769,986
Less: Provision for impairment	**(15,828)**	(15,208)
	748,644	754,778
Other receivables	**44,762**	63,101
Trade and other receivables	**793,406**	817,879

The Group's trade receivables mainly represent progress billing receivables from facade building contracting works. The Group adopts credit policies which are consistent with the trade practices prevalent in the building industry in countries in which the Group has operations. The Group recognises its trade receivables when the value of the subcontract works is certified by the architect. Pursuant to the trade practices, the main contractor from time to time makes applications for payment certificates which include the certified value of the nominated subcontract works.

Retention receivables represents certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and the amount retained is withheld on each payment up to a maximum amount calculated as a prescribed percentage of the contract sum. No aging analysis of retention receivables is presented as the retentions are released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects in question.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 TRADE AND OTHER RECEIVABLES *(Continued)*

The analysis of trade and other receivables, including the aging analysis of trade receivables, based on the invoice date, and net of provisions, is as follows:

	2016 HK$'000	2015 HK$'000
Trade receivables:		
0 to 30 days	**272,228**	302,014
31 to 60 days	**28,008**	85,792
61 to 90 days	**9,589**	7,212
More than 90 days	**54,773**	49,879
	364,598	444,897
Retention receivables	**384,046**	309,881
	748,644	754,778
Other receivables	**44,762**	63,101
Trade and other receivables	**793,406**	817,879

Except for receivables arising from construction contracts which are billed and immediately payable in accordance with the terms of the relevant agreement, the Group generally allows an average credit period not exceeding 90 days (2015: 90 days) to its customers and the retention receivables are repayable approximately one year after the expiry of the defect liability period of construction projects.

As of 31 December 2016, trade receivables of HK$54,773,000 (2015: HK$49,879,000) were past due based on credit terms but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2016 HK$'000	2015 HK$'000
90 to 365 days	**45,627**	42,153
Over 365 days	**9,146**	7,726
	54,773	49,879

As at 31 December 2016, trade and retention receivables of approximately HK$15,828,000 (2015: HK$15,208,000) were impaired and fully provided.

The individually impaired trade and retention receivables relate to contracts under disputes with customers and are expected not to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

21 TRADE AND OTHER RECEIVABLES *(Continued)*

Movements of provision for impairment of the trade and retention receivables are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**15,208**	13,444
Addition of provisions	**1,325**	1,764
Exchange difference	**(705)**	—
At 31 December	**15,828**	15,208

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
United States dollar	**124,533**	240,828
Hong Kong dollar	**369,842**	214,736
Macau Pataca	**76,928**	178,653
Canadian dollar	**142,330**	91,211
Renminbi	**57,688**	62,294
Great British Pound	**5,050**	13,443
United Arab Emirates Dirham	**13,121**	13,136
Others	**3,914**	3,578
	793,406	817,879

There is no concentration of credit risk with respect to trade and retention receivables, as the Group has a large number of customers.

The carrying amounts of the Group's trade and other receivables approximate the fair value of these balances.

22 AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Balances with fellow subsidiaries are unsecured, interest-free and repayable on demand. The amount is denominated in Hong Kong dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BANK AND CASH BALANCES

Bank and cash balances of the Group are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Hong Kong dollar	**223,279**	73,051
Renminbi	**54,262**	55,025
Macau Pataca	**20,244**	42,674
Australian dollar	**14,250**	12,893
United States dollar	**68,988**	12,884
Canadian dollar	**4,503**	835
United Arab Emirates Dirham	**523**	814
Others	**842**	2,309
	386,891	200,485

In respect of the balance denominated in RMB of the Group's subsidiaries incorporated in the PRC, conversion into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24 BANK AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans, secured	**13,153**	13,191
Bank loans, unsecured	**509,690**	379,920
	522,843	393,111

The borrowings are repayable as follows:

	2016 HK$'000	2015 HK$'000
On demand or within one year	**322,843**	180,391
In the second year	**—**	12,720
In the third to fifth years, inclusive	**200,000**	200,000
	522,843	393,111
Less: amounts due for settlement within twelve months	**(322,843)**	(180,391)
Amounts due for settlement after twelve months	**200,000**	212,720

At 31 December 2016, bank loans of HK$13,153,000 (2015: HK$13,191,000) are secured by the Group's land and buildings (Note 14).

24 BANK AND OTHER BORROWINGS *(Continued)*

The carrying amounts of the Group's bank and other borrowings are denominated in the following currencies:

	Hong Kong dollar HK$'000	Canadian dollar HK$'000	United States dollar HK$'000	Total HK$'000
31 December 2016				
Bank loans	**200,000**	**56,241**	**266,602**	**522,843**
31 December 2015				
Bank loans	200,000	109,467	83,644	393,111

The average bank loans interest rates at 31 December 2016 was 3.24% (2015: 2.62%).

All bank and other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The carrying amounts of bank and other borrowings approximate the fair value of these balances.

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

The analysis of trade payables, other payables and accruals, including the aging analysis of trade payables, based on invoice date, is as follows:

	2016 HK$'000	2015 HK$'000
Trade payables:		
0 to 30 days	**325,118**	287,680
31 to 60 days	**22,682**	10,153
More than 60 days	**26,657**	9,621
	374,457	307,454
Retention payables	**99,081**	61,488
	473,538	368,942
Other payables and accruals	**98,813**	93,712
Trade payables, other payables and accruals	**572,351**	462,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(Continued)*

As at 31 December 2016, the amount of retention payables expected to be due after more than twelve months was approximately HK$57,431,000 (2015: HK$24,107,000).

The carrying amounts of the Group's trade payables, other payables and accruals are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
Hong Kong dollar	**259,232**	150,983
Renminbi	**122,704**	111,081
Macau Pataca	**29,458**	84,255
United States dollar	**82,967**	58,346
Canadian dollar	**76,271**	54,528
Great British Pound	**662**	2,371
Others	**1,057**	1,090
	572,351	462,654

The carrying amounts of trade payables, other payables and accruals approximate the fair value of these balances.

Movement of warranty provisions included in other payables and accruals are as follows:

	2016 HK$'000	2015 HK$'000
At 1 January	**21,174**	16,327
Addition	**14,921**	7,775
Exchange differences	**157**	(722)
Utilisation	**(9,297)**	(2,206)
At 31 December	**26,955**	21,174

The Group provides warranties to its customers on façade contracting works in accordance with terms and conditions as stipulated in contracts, under which defective works are rectified or replaced.

The amount of the warranty provision is estimated based on the past experience of the level of defective works and the estimation basis is regularly reviewed and revised where appropriate.

26 FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Within one year	**797**	978	**774**	951
In the second to fifth years, inclusive	**2,361**	2,567	**1,951**	2,146
Over five years	**263**	859	**187**	573
	3,421	4,404	**2,912**	3,670
Less: Future finance charges	**(509)**	(734)		
Present value of lease obligations	**2,912**	3,670		
Less: Amount due for settlement within twelve months			**(774)**	(951)
Amount due for settlement after twelve months			**2,138**	2,719

The average lease term is 6 years. At 31 December 2016, the average effective borrowing rate was 6.25% (2015: 6.0%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the property and motor vehicles at nominal prices.

All finance lease payables are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
United States dollar	**2,849**	3,562
Canadian dollar	**63**	108
	2,912	3,670

The Group's finance lease payables are secured by the lessor's title to the leased assets (Note 14).

27 DEFERRED TAXATION

The analysis of the Group's deferred tax liabilities and (assets) is as follows:

	2016 HK$'000	2015 HK$'000
Deferred tax liabilities to be crystalised after more than twelve months	**3,036**	3,036
Deferred tax assets to be recovered after more than twelve months	**(134,321)**	(148,281)
Deferred tax assets to be recovered within twelve months	**(15,435)**	(15,981)
	(149,756)	(164,262)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 DEFERRED TAXATION *(Continued)*

The following are the major deferred tax liabilities and (assets) recognised by the Group.

	Accelerated tax depreciation HK$'000	Revaluation of land and buildings HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2015	2,283	753	(157,544)	(154,508)
Exchange difference	—	—	2,987	2,987
Credited to consolidated income statement (note 9)	—	—	(9,705)	(9,705)
At 31 December 2015	2,283	753	(164,262)	(161,226)
Exchange difference	—	—	1,990	1,990
Charged to consolidated income statement (note 9)	—	—	12,516	12,516
At 31 December 2016	**2,283**	**753**	**(149,756)**	**(146,720)**

The following is analysis of net deferred tax balances for statement of financial position purposes:

	2016 HK$'000	2015 HK$'000
Deferred tax liabilities	**293**	293
Deferred tax assets	**(147,013)**	(161,519)
	(146,720)	(161,226)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$856,138,000 (2015: HK$619,927,000) to be carried forward in offsetting future taxable income. The expiry dates of these tax losses are subject to the tax ruling of the respective jurisdictions.

28 MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group acquired additional interest in a subsidiary through capitalisation of shareholder's loans into equity, resulted in a reduction of non-controlling interests of approximately HK$287,768,000.

29 SHARE CAPITAL

	Issued and fully paid Number of shares '000	Share capital Amount HK$'000
Ordinary shares of HK$0.01 each		
At 1 January 2015, 1 January 2016 and 31 December 2016	2,155,545	21,555

30 SHARE PREMIUM AND RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium and retained profits

Under the Companies Law of the Cayman Islands, the funds in the share premium and retained profits of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The distributable reserves of the Company amounted to approximately HK$935,424,000 (2015: HK$961,738,000).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2 to the financial statements.

(iii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 2 to the financial statements.

(iv) Share-based payment reserve

The share-based payment reserve represents the fair value of the equity instruments granted to directors and employees of the Group, recognised in accordance with the accounting policy adopted for share-based payments in note 2 to the financial statements.

(v) Statutory reserves

The statutory reserves, which are non-distributable, are appropriated from the profit after taxation of the Group's PRC and Macau subsidiaries under the applicable laws and regulations in the PRC and Macau respectively.

(vi) Special reserve

On 11 March 2014, the Group acquired 100% of equity interests in Treasure Construction Engineering Limited from Barkgate Enterprises Limited, a wholly owned subsidiary of China State Construction International Holdings Limited ("CSCIHL"), which is the intermediate holding company of the Company, at a cash consideration of HK$2,000,000. The excess of approximately HK$1,970,000, representing the difference between the fair value of consideration paid for the acquisition and the net asset value of Treasure Construction at the acquisition date, was charged to special reserve.

During 2016, the Group increased 38.63% of equity interests in its subsidiary, Gamma North America, Inc. through capitalisation of shareholder's loans. The net liability value of Gamma North America, Inc. of HK$287,768,000 has been transferred from non-controlling interests to special reserve in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 SHARE PREMIUM AND RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(vii) Included in retained profits as at 31 December 2016 is the proposed 2016 final dividend of approximately HK$17,244,000.

31 SHARE-BASED PAYMENTS

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan") of CSCECL, an intermediate holding company of the Company, 1,215,000 incentive shares were granted to certain directors and employees of the Company (the "Eligible Persons") on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share (the "Exercise Price"), subject to a lock-up period of two years' service from the Grant Date (the "Lock-up Period"). During the Lock-up Period, these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date. Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or individual's key performance indicators are not achieved.

The fair value of incentive shares on the date of grant determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs into the model include closing price of RMB9.16 per share on the Grant Date, exercise price of RMB4.866 per share, share-based payments cap at 40% of respective Eligible Persons' remuneration, average volatility of 44%, average dividend yield of 3.32% and an average annual risk-free interest rate of 2.84%. The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

32 LEASE COMMITMENTS

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**28,003**	30,676
In the second to fifth years inclusive	**46,545**	60,182
After fifth year	**12,148**	19,587
	86,696	110,445

Operating lease payments represent rentals payable by the Group for certain of its offices, factories and staff quarters. Leases are negotiated for a term ranging from one to ten years and rentals are fixed over the lease terms and do not include contingent rentals.

33 RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a) Transactions with related parties

i) Transactions with fellow subsidiaries

	2016 HK$'000	2015 HK$'000
Construction fee received from fellow subsidiaries	**975,172**	409,137
Service income received from fellow subsidiaries	**13,476**	1,333
Service fees paid to fellow subsidiaries	**14,219**	20,444

ii) Transactions with other state-controlled entities in the Mainland China

Certain of the Group's business is operated in an economic environment currently predominated by entities directly or indirectly owned, controlled or significantly influenced by the government of the Mainland China. In addition, the Group is itself part of a larger group of companies under CSCEC.

Apart from transactions with its fellow subsidiaries, the Group has transactions with other state-controlled entities, mainly interest income.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

(b) Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Short term employee benefits	**30,530**	28,299
Post-employment benefits	**608**	462
	31,138	28,761

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Note	2016 HK$'000	2015 HK$'000
Non-current Asset			
Interests in subsidiaries		**912,906**	938,353
Current Assets			
Deposits, prepayments and other receivables		**377**	385
Amounts due from subsidiaries		**50,000**	50,000
Tax recoverable		**—**	869
Bank and cash balances		**366**	404
		50,743	51,658
Current Liabilities			
Other payables and accruals		**1,658**	1,582
Current tax payables		**376**	500
		2,034	2,082
Total Assets less Current Liabilities		**961,615**	987,929
Capital and Reserves			
Share capital		**21,555**	21,555
Share premium and reserves	(Note (a))	**940,060**	966,374
		961,615	987,929

On behalf of the Board

Zhu Yijian
Director

Chan Sim Wang
Director

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

Note (a) Reserve movement of the Company

	Share premium HK$'000	Share-based payment reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2015	898,654	4,636	1,168	904,458
Profit for the year	—	—	85,627	85,627
2014 final dividend paid	—	—	(10,778)	(10,778)
2015 interim dividend paid	—	—	(12,933)	(12,933)
At 31 December 2015 and 1 January 2016	898,654	4,636	63,084	966,374
Profit for the year	**—**	**—**	**3,863**	**3,863**
2015 final dividend paid	**—**	**—**	**(12,933)**	**(12,933)**
2016 interim dividend paid	**—**	**—**	**(17,244)**	**(17,244)**
At 31 December 2016	**898,654**	**4,636**	**36,770**	**940,060**

FIVE-YEAR FINANCIAL SUMMARY

The table set out below summarizes the results and the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Group's published consolidated financial statements of the respective years and restated/reclassified as appropriate. This summary is not part of the audited consolidated financial statements.

CONSOLIDATED RESULTS

	2012 HK$'000 (restated)	2013 HK$'000 (restated)	2014 HK$'000	2015 HK$'000	2016 HK$'000
Revenue	1,860,615	1,418,808	1,682,149	2,194,896	**2,647,272**
Gross profit	93,606	8,443	175,338	211,513	**189,540**
Profit/(loss) before tax	(181,529)	(168,168)	(32,697)	26,718	**18,470**
Profit/(loss) attributable to owners of the Company	(136,813)	50,398	57,738	71,463	**88,391**
Basic earnings/(losses) per share (HK cents)	(6.87)	2.34	2.68	3.32	**4.10**
Diluted earnings/(losses) per share (HK cents)	(6.87)	2.34	2.68	3.32	**4.10**

CONSOLIDATED NET ASSETS

	2012 HK$'000 (restated)	2013 HK$'000 (restated)	2014 HK$'000	2015 HK$'000	2016 HK$'000
Non-current assets	382,605	456,054	467,982	438,168	**461,792**
Current assets	1,609,897	1,756,800	1,431,386	1,658,767	**1,822,860**
Current liabilities	689,606	496,475	647,541	915,598	**1,197,994**
Non-current liabilities	153,866	634,984	219,551	215,732	**202,431**
Net asset	1,149,030	1,081,395	1,032,276	965,605	**884,227**

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